

# **CORPORATE GOVERNANCE GROUP AGENDA**

**Thursday, 23<sup>rd</sup> July 2020 at 7.15pm**

In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, this meeting will be held via Zoom and by the Council's YouTube channel – Braintree District Council Committees.

Members of the public will be able to view and listen to this meeting via YouTube.  
To access the meeting please use the link below:  
<http://www.braintree.gov.uk/youtube>

**Members of the Corporate Governance Group are requested to attend this meeting to transact the business set out in the Agenda.**

**Membership:-**

Councillor P Euesden	Councillor R van Dulken (Chairman)
Councillor D Hume	Councillor D Wallace
Councillor H Johnson (Vice Chairman)	Councillor T Walsh
Councillor D Mann	Councillor Mrs L Walters
Councillor Miss V Santomauro	

Members unable to attend the meeting are requested to forward their apologies for absence to the Governance and Members Team on 01376 552525 or email [governance@braintree.gov.uk](mailto:governance@braintree.gov.uk) by 3pm on the day of the meeting.

A WRIGHT  
Chief Executive

## **INFORMATION FOR MEMBERS - DECLARATIONS OF INTERESTS**

### **Declarations of Disclosable Pecuniary Interest, Other Pecuniary Interest or Non-Pecuniary Interest**

Any member with a Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a Disclosable Pecuniary Interest or other Pecuniary Interest or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

### **Question Time**

In response to Coronavirus the Council has implemented new procedures for public question time.

The Agenda allows for a period of up to 30 minutes when members of the public can speak. Members of the public wishing to speak are requested to register by contacting the Governance and Members Team on 01376 552525 or email [governance@braintree.gov.uk](mailto:governance@braintree.gov.uk) by midday on the working day before the day of the Committee meeting. For example, if the Committee Meeting is due to be held on a Tuesday, the registration deadline is midday on Monday, (where there is a bank holiday Monday you will need to register by midday on the previous Friday).

The Council reserves the right to decline any requests to register if they are received after this time.

Registered participants must submit their written questions/statements no later than 9am on the day of the meeting by emailing them to [governance@braintree.gov.uk](mailto:governance@braintree.gov.uk)

Participation will be via the submission of a written question or statement which will be read out by the Chairman or an Officer during the meeting. All written questions or statements should be concise and should be able to be read within the 3 minutes allotted for each question/statement. The question/statement will be published on the Council's website. The Council reserves the right to remove any defamatory comment in the submitted question/statement.

### **Documents**

Agendas, reports and minutes for all the Council's public meetings can be accessed via [www.braintree.gov.uk](http://www.braintree.gov.uk)

We welcome comments from members of the public to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended you can send these via [governance@braintree.gov.uk](mailto:governance@braintree.gov.uk)

<b>PUBLIC SESSION</b>	<b>Page</b>
<b>1 Apologies for Absence</b>	
<b>2 Minutes of the Previous Meeting</b> To approve as a correct record the minutes of the meeting of the Corporate Governance Group held on 16 <sup>th</sup> January 2020 (copy previously circulated).	
<b>3 Public Question Time</b> (See paragraph above)	
<b>4 Declarations of Interest</b> To declare the existence and nature of any Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice where necessary before the meeting.	
<b>Monitoring and Finance</b>	
<b>5 Key Financial Indicators – 31<sup>st</sup> May 2020</b>	<b>5 - 13</b>
<b>Audit and Governance</b>	
<b>6 Internal Audit Update, Including Progress Against Audit Plans 2019/20 and 2020/21</b>	<b>14 - 30</b>
<b>7 Internal Audit Annual Report 2019/20</b>	<b>31 - 43</b>
<b>8 Draft Internal Audit Plan 2020/21</b>	<b>44 - 56</b>
<b>9 External Audit Plan 2019/20</b>	<b>57 - 89</b>
<b>10 Strategic Risk Management</b>	<b>90 - 116</b>
<b>11 Updated Regulation of Investigatory Powers Act (2000) and Investigatory Powers Act (2016) Policy</b>	<b>117 - 131</b>

<b>12</b>	<b>Annual Governance Statement 2019/20</b>	<b>132 - 157</b>
<b>13</b>	<b>Treasury Management Annual Report 2019-20</b>	<b>158 - 179</b>
<b>14</b>	<b>Urgent Business - Public Session</b> To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.	

Key Financial Indicators – 31 <sup>st</sup> May 2020		Agenda No: 5
<b>Portfolio</b>	<b>Finance and Performance Management</b>	
<b>Corporate Outcome:</b>	<b>A high performing organisation that delivers excellent and value for money services</b> <b>Delivering better outcomes for residents and businesses and reducing costs to taxpayers</b>	
<b>Report presented by:</b>	<b>Trevor Wilson, Head of Finance</b>	
<b>Report prepared by:</b>	<b>Trevor Wilson, Head of Finance</b>	
<b>Background Papers:</b>	<b>Public Report</b>	
None.	<b>Key Decision: No</b>	
<b>Executive Summary:</b>		
<p>The attached schedule (Appendix A) of Key Financial Indicators provides details of performance recorded for the financial year to 31<sup>st</sup> May 2020.</p> <p>Commentary:</p> <p>a) The net General Fund revenue budget for the year is £15.226m. The net expenditure incurred in the year to 31<sup>st</sup> May was £4.84m. This represents a negative variance of £438,000 compared to the profiled budget of £4.402m. This variance results primarily from a reduction in income of £0.725m; with the main areas include planning fees, car park charges and interest received.</p> <p>b) The Council’s response to the COVID-19 pandemic has resulted in additional unbudgeted expenditure being incurred and the nationwide lockdown has resulted in a significant reduction in income in many service areas. The Government has made £3.2billion of Emergency Funding available to Local Government, of which this Council has received two allocations totalling £1.567m. Assessments of the financial impact on the Council have been requested on a monthly basis by the Government. The latest return was submitted on 19<sup>th</sup> June, and this indicated estimated additional expenditure in 2020/21 of £1.195m and a reduction in income of £3.077m, of which 80% is estimated to be irrecoverable. In addition, based on the collection rates for the first three months of this year it is forecast that £2.988m of Council Tax and £3.012m of business rates will not be collected in the year. The Government has recently announced further financial support to Local Government to help meet a proportion of the losses of income from fees and charges; specific detail of how this support will be calculated is awaited.</p> <p>c) Accountants are currently working with service managers on the first quarter (end of June) information to assess the impact of the COVID-19 pandemic and to</p>		

predict the outturn position for the year. The outcome of this will be included in the Quarterly Performance report which will be received by the Cabinet on 7<sup>th</sup> September 2020 and will inform the budget setting process for 2021/22.

- d) The total budget for Salaries for the year is £18.778million. Expenditure on Salaries for the year to the end of May was £2.943m. This compares to a profiled budget of £3.013m. The positive variance of £70,000 is after allowing for £50,000 of the Efficiency Factor (£300,000 for the year). It should be noted that the profiled budget includes allowance for the estimated annual pay award of 2%. The award is still to be agreed between the Unions and the Employers Organisation, with the latest offer of 2.75% by the Employers Organisation having been rejected.
- e) The budget for the year for rental income received from commercial and industrial properties is £2.901m, which consists of 218 leases, and is net of an allowance for voids of £52,380. The actual income received to the end of May is £0.781 against a profiled budget of £0.786m. Six properties were unoccupied as at 31<sup>st</sup> May, five properties at Braintree Enterprise Centre and one at 3/4 Century Drive, Braintree. 31 of the tenants experiencing financial hardship due to the COVID-19 pandemic requested and were granted a three month deferral of rent payments.
- f) Expenditure on capital projects, to the end of May, was £2.228m against the updated Capital Programme of £39.252m, which includes estimated expenditure on: Manor Street Development of £17.579m; Horizon 120 of £12.465m; I-Construct of £2.224m; Suffolk Waste Partnership investment £1.228m; and Pedestrianisation of Braintree town centre £1.121m. The main schemes on which expenditure has been incurred are: Suffolk Waste Partnership investment (£1.228m), Manor Street Development (£512k) and Horizon 120 (£398k).
- g) The total Council Tax collectable debit for the year is £97.65m. The collection rate as at the end of May is 20.12% (£19.72m collected), which compares to a rate of 21.32% for the same period last year.
- h) The total Business Rates (National Non-Domestic Rates) collectable debit for the year is £27.26m. The collection rate as at the end of May is 16.61% (£4.53m collected), which compares to a rate of 20.5% for the same period last year. The amount collectable is lower than in previous years due to the Government's Expanded Retail and Nursery rate relief schemes having been awarded with a total value of £18.5m.
- i) A total of 93 write-offs of Council Tax, with a value of £10,270 have been authorised in the year to 31<sup>st</sup> May: 18 in respect of the current year and 75 in respect of previous financial years.
- j) A total of 7 write-offs of Business Rates, with a net value of £6,578, have been authorised in the year to 31<sup>st</sup> May: 1 in respect of the current year and 6 in respect of previous financial years.
- k) The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and NNDR, was £3.223m, of which £1.67m was in respect of Housing Benefit overpayments and £0.472m for Trade Waste services. Payment plans are agreed and range from payment within 14 days and payments by instalments throughout

the year to plans determined under Regulations (prescribed maximum amount that can be received from a debtor's benefit award).

- l) The rate of return achieved on investment of the Council's balances and funds in the year to-date is 0.56%. This return was achieved on an average amount invested of £42.71m and relates solely to monies placed with banks, building societies, other local authorities, the Debt Management Office and in Money Market Funds.
- m) Dividend received/declared in the year to 31<sup>st</sup> May is £12,063. The market values of these pooled funds show an unrealised net loss in the principal sum of £1.032m as at 31<sup>st</sup> May 2020. The total invested in pooled funds; equity, property and multi-asset funds, was £19m at the end of May. Whilst the Strategic Investment Group had agreed that a further sum of £1m should be invested in the Kames Diversified Fund before the financial year-end subsequent advice from Arlingclose (Treasury management advisors) has been to hold-off making this investment given the impact of the Coronavirus pandemic on the markets and the need to monitor the impact on the Council's cashflow. These investments are placed in the knowledge that their capital values will be subject to volatility but overall their trend has been positive over the medium term (i.e. over a minimum of 3 years).
- n) Detail of the Council's investments of surplus monies, totalling £61.7m, as at 31<sup>st</sup> May 2020, is provided at Appendix B.
- o) In addition to the Council's surplus funds invested in the Debt Management Office the Council has also used this to temporarily hold the Business Support Grant funding of £31.57million, received from the Government in early April, until the grants were awarded and paid to businesses during April, May and June.

#### **Recommended Decision:**

Members are asked to accept the report of the Key Financial Indicators as at 31<sup>st</sup> May 2020.

#### **Purpose of Decision:**

To provide evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues that may arise.

**Any Corporate implications in relation to the following should be explained in detail.**

<b>Financial:</b>	<p>The net General Fund revenue budget for the year is £15.226m. The net expenditure incurred in the year to 1<sup>st</sup> May was £4.84million. This represents a negative variance of £438,000 against the profiled budget for the period.</p> <p>Capital expenditure was £2.228m at the end of May.</p> <p>Collection rates for both Business Rates and Council Tax are both less than the previous year due to the impact on residents and businesses of the COVID-19 pandemic. With an expected increase in the level of arrears at the year-end.</p>
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	Regular consideration of a suite of Financial Health Indicators is recommended good practice.
<b>Officer Contact:</b>	Trevor Wilson
<b>Designation:</b>	Head of Finance
<b>Ext. No:</b>	2801
<b>E-mail:</b>	Trevor.wilson@braintree.gov.uk



# Key Financial Indicators at 31st May 2020

## APPENDIX A

	Full Year Budget 2020/21	Actual 31 May 2020	Profile to 31 May 2020	Variance from Profile	
	£'000	£'000	£'000	£'000	%
<b>General Fund - Expenditure</b>					
Salaries	18,778	2,943	3,013	-70	-2.3%
Other Controllable Expenditure	37,639	8,013	8,230	-217	-2.6%
<b>General Fund - Income</b>					
Commercial & Industrial Property - Rental Income	-2,901	-781	-786	5	-0.6%
Other Controllable Income	-38,290	-5,335	-6,055	720	-11.9%
<b>General Fund - Net Revenue (Controllable)</b>	<b>15,226</b>	<b>4,840</b>	<b>4,402</b>	<b>438</b>	<b>10.0%</b>
<b>Capital Programme</b>	39,252	2,228			

	Full Year Target	Actual 31 May 2020	Actual 31 May 2019	Variance
Council Tax collection in year - %	98.30%	20.12%	21.32%	-1.20%
Council Tax collection - income collected for year - £m	£97.65	£19.72	£19.92	-£0.19
Write-offs in year - £'000		£1	£0	£0
Write-offs in year - number		18	7	11
Write-offs all years £'000		£10	£36	-£25
Write-offs all years - number		93	122	-29
Business Rates collection in year - %	98.60%	16.61%	20.50%	-3.89%
Business Rates collected for year - £m	£27.26	£4.53	£8.94	-£4.41
Write-offs in year - £'000		£0	£2	-£2
Write-offs in year - number		1	2	-1
Write-offs all years - £'000		£7	£45	-£39
Write-offs all years - number		7	16	-9
Creditors - payment of invoices within 30 days of receipt	99.25%	98.19%	98.99%	-0.80%

Debtors - Balance Outstanding	31-Mar-18	31-Mar-19	31-Mar-20	31-May-20
	£'000	£'000	£'000	£'000
Service Level Agreement charges - principally Tabor Academy and residents of Twin Oaks, Stisted	197	190	181	182
Capital Projects	-	-	-	-
Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc.	7	12	12	27
Charges for services provided by: ICT, Marketing, Offices, Elections, etc	80	43	60	42
Development & Environment	538	485	284	352
Finance	111	91	92	118
Leisure	65	189	122	97
Operations	1,219	953	1,076	677
Housing	47	51	65	58
Sub-Total - excluding Hsg. Benefits	2,264	2,014	1,892	1,553
Housing Benefits	1,745	1,719	1,673	1,670
Total	<b>4,009</b>	<b>3,733</b>	<b>3,565</b>	<b>3,223</b>
Target is for Debt Outstanding (excluding Housing Benefits, charging orders and large value invoices raised in final days of the month-end) to be £0.6million by 31 March 2021.	651	521	734	

Profile by Recovery Stage:				
Invoice	2,542	2,109	1,914	1,586
Reminder	329	421	648	642
Final Notice	-	-	-	-
Pre-legal	567	366	104	104
Enforcement Agent	310	354	328	329
Tracing Agent	2	-	3	1
Charging Order	31	31	30	30
Attachment to Benefits/Earnings	228	452	538	531
Summons	-			
Total	<b>4,009</b>	<b>3,733</b>	<b>3,565</b>	<b>3,223</b>
Write offs (debits and credits) in year - value - £000	£161.4	£5.1	£7.7	£0.7
Write-offs in year - number	392	140	114	2

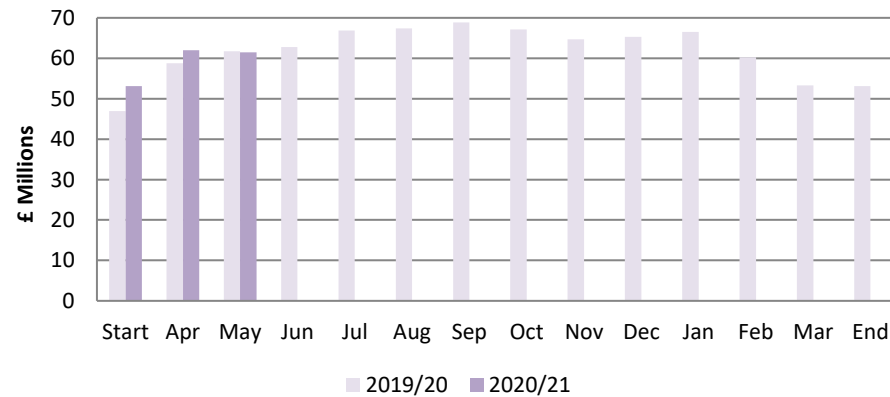
**Progress on achieving Efficiency Savings Targets**

The amount of the Efficiency Savings target included in the budget for 2020/21 is a net amount of £300,000. The underspend on salaries of £70,000, recorded above, is after offsetting £50,000 of the target.

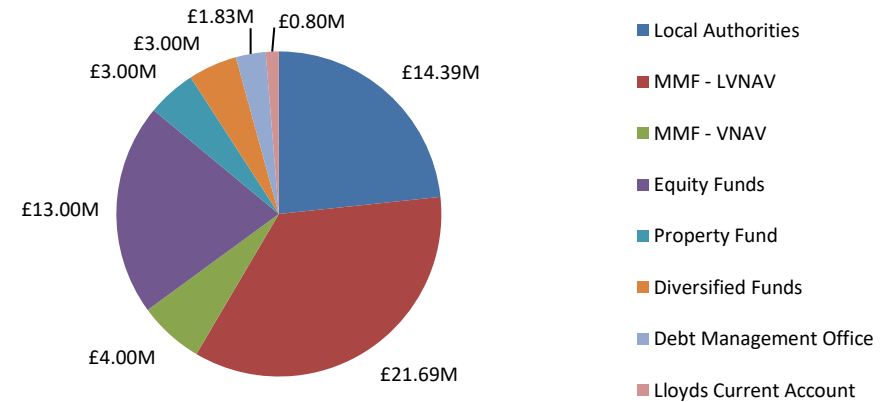
## Treasury Management Monitor - May 2020

## APPENDIX B

Average Cash Balances Managed

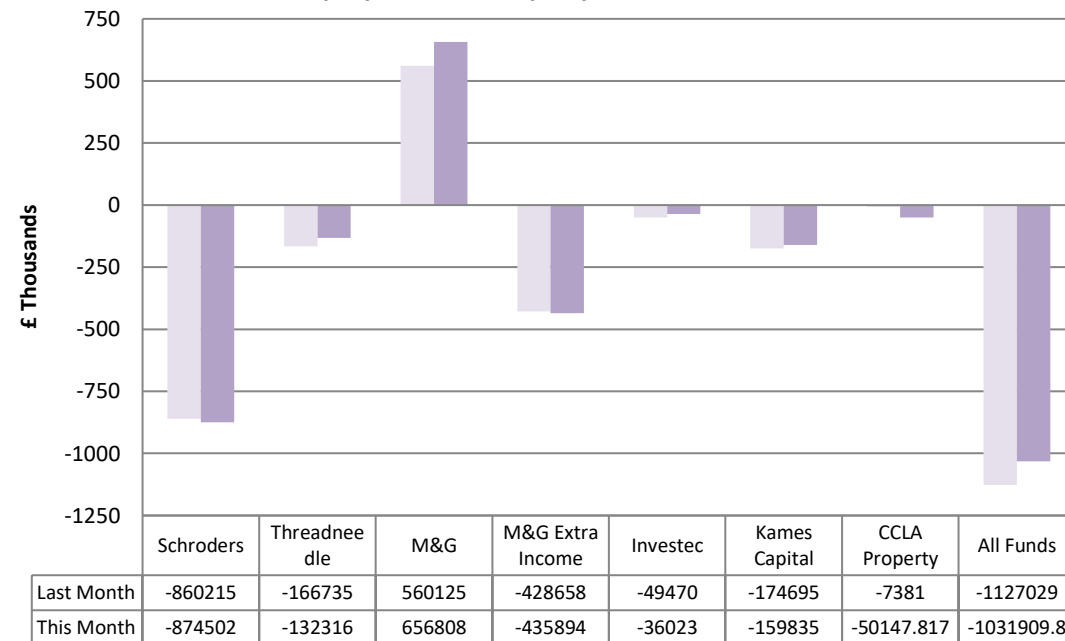


Average Invested to end of Period



	Investment Activity			
	This Month		Cumulative	
	Made £m	Sold £m	Made £m	Sold £m
<b>External Investments</b>				
Property Fund	0.0	0.0	0.0	0.0
Equity Funds	0.0	0.0	0.0	0.0
Multi Funds	0.0	0.0	0.0	0.0
MMF - LVNAV	2.5	-1.5	10.0	-3.0
MMF - VNAV	0.0	0.0	0.0	0.0
<b>Sub-Total</b>	<b>2.5</b>	<b>-1.5</b>	<b>10.0</b>	<b>-3.0</b>
<b>Deposits - Fixed</b>				
UK Bank & Building Soc.	0.0	0.0	0.0	0.0
Non-UK Banks	0.0	0.0	0.0	0.0
Debt Mgt Office	0.0	0.0	0.0	0.0
Local Authorities	0.0	-3.0	5.0	-6.0
<b>Sub-Total</b>	<b>0.0</b>	<b>-3.0</b>	<b>5.0</b>	<b>-6.0</b>
Lloyds Bank PLC	0.0	-0.1	0.0	-0.3
<b>Sub-Total</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.3</b>
<b>Total</b>	<b>2.5</b>	<b>-4.6</b>	<b>15.0</b>	<b>-9.3</b>

Equity, Multi & Property Funds FV Gain/ Loss



**Commentary**

Average sum invested in the month £61.44m (Last year £61.71m)

Average sum invested for the year to date £61.71m (Last year £60.26m)

Actual sum invested at the end of the period £61.7m (Last year £60.12m)

Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £39708 a return of 0.56% [Annual Budget £196k]

Note: 3mth Libid 0.37% 6mth LIBID 0.54%

Dividends earned (declared) on equity, property and diversified funds to the end of the period £12063 [Annual Budget £890k]

Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £-1031910 a change of £95119 from last month

The Council has received significant additional funds for COVID-19 measures including £32.5m for business rate grants and hardship funding. These funds have been held on the Debt Management Office Account pending drawdown and have been excluded from the normal treasury management activity. Interest earned on this funding has been minimal with security of funds being paramount resulting in £1k interest on an average balance of £11.96m to end May

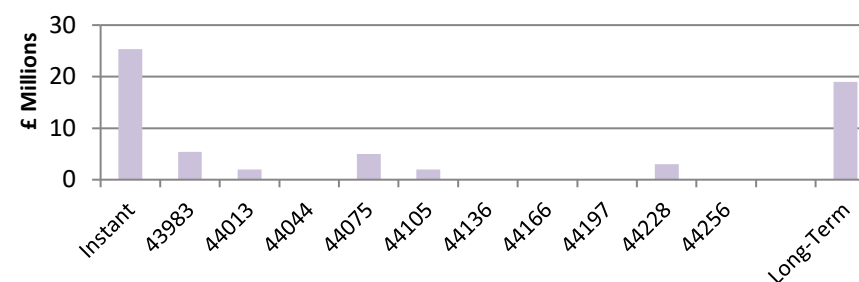
#### INVESTMENT HOLDINGS AT END OF PERIOD

COUNTERPARTY	Type	Principal	Start	Maturity	Yield
SANTANDER	FIXED	0			0.00%
NATIONWIDE BS	FIXED	0			0.00%
SEDGEMOOR DISTRICT COL DEPOSIT - LA		2000000	20/01/2020	22/07/2020	0.86%
SUFFOLK COUNTY COUNCIL DEPOSIT - LA		2000000	13/03/2020	14/09/2020	1.12%
BABERGH DISTRICT COUNC DEPOSIT - LA		3000000	30/03/2020	30/09/2020	0.95%
WORCESTERSHIRE COUNTY DEPOSIT - LA		2000000	01/04/2020	01/10/2020	1.02%
BIRMINGHAM CITY COUNC DEPOSIT - LA		3000000	20/04/2020	01/02/2021	1.10%
DEBT MANAGEMENT OFFIC FIXED		5390000	28/05/2020	04/06/2020	0.02%
LLOYDS BANK	CALL A/C	310000	31/05/2020	01/06/2020	0.00%
DEUTSCHE	MMF	5000000	31/05/2020	01/06/2020	Variable
GOLDMAN SACHS	MMF	3500000	31/05/2020	01/06/2020	Variable
CCLA PUBLIC DEPOSIT	MMF	2500000	31/05/2020	01/06/2020	Variable
FEDERATED PRIME	MMF	5000000	31/05/2020	01/06/2020	Variable
ABERDEEN STANDARD	MMF	5000000	31/05/2020	01/06/2020	Variable

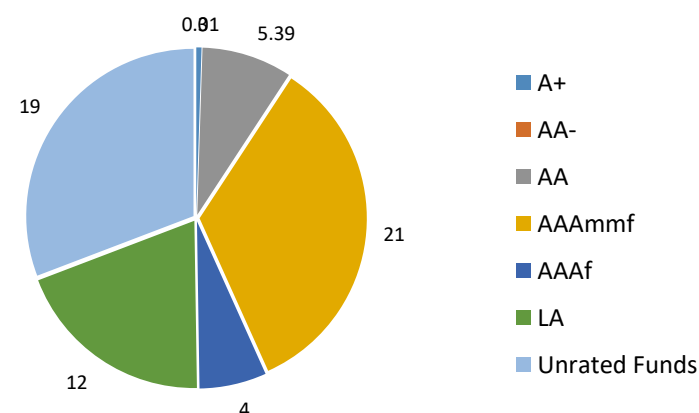
#### EXTERNAL FUND INVESTMENTS

SHRODERS INCOME MAX.	EQUITY	2500000		Variable
THREADNEEDLE UK EQUITY	EQUITY	5000000		Variable
M&G GLOBAL DIVIDEND	EQUITY	2500000		Variable
M&G EXTRA INCOME	EQUITY	3000000		Variable
KAMES CAPITAL	MULTI	2000000		Variable
INVESTEC	MULTI	1000000		Variable
CCLA – LAMIT PROPERTY	PROPERTY	3000000		Variable
ROYAL LONDON CASH PLUS	MMF-VNAV	4000000		Variable

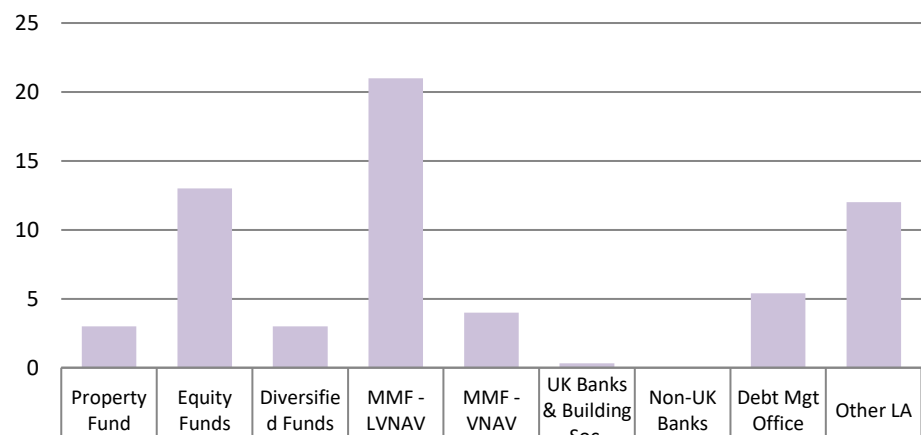
#### Maturity Profile at end of Period



#### Credit Rating of Investment Holdings



Counterparty Type at end of Period



Exposure £m	3	13	3	21	4	0.31	0	5.39	12
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Internal Audit Update, Including Progress Against Audit Plans 2019/20 and 2020/21		Agenda No: 6
Portfolio	Finance and Performance Management	
Corporate Outcome:	A high performing organisation that delivers excellent and value for money services	
Report presented by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Report prepared by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Background Papers:		Public Report
None.		Key Decision: No
Executive Summary:		
<p>The Internal Audit Plan for 2019/20 was approved by the Governance Committee on 24<sup>th</sup> April 2019, and the 2020/21 Internal Audit Plan will be presented to Members on 23<sup>rd</sup> July 2020. This report provide Members with an update on progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service.</p> <p>The report also provides an update on progress against the External Quality Assessment Action Plan, and the outcome of the Internal Audit Service self-assessment against the Local Government Application Note reflecting the Public Sector Internal Audit Standards</p> <p>The report also provides an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority.</p>		
Recommended Decision:		
<p>Members note the progress and performance against the Internal Audit Plans 2019/20 and 2020/21.</p>		
Purpose of Decision:		
<p>The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Corporate Governance Group, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.</p> <p>This report provides an update on Internal Audit activity, and progress and performance against the approved Internal Audit Plan in accordance with the Corporate Governance Group role and the requirements of the PSIAS.</p>		

**Any Corporate implications in relation to the following should be explained in detail.**

<b>Financial:</b>	None.
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	None.
<b>Officer Contact:</b>	Angela Mitchell
<b>Designation:</b>	Audit, Insurance and Fraud Manager
<b>Ext. No:</b>	2821
<b>E-mail:</b>	Angie.mitchell@braintree.gov.uk

## 1. INTRODUCTION

This report identifies progress against planned work, the outcome of audits completed since the last report to the Corporate Governance Group, and other work completed.

## 2. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2019/20

The progress against the 2019/20 Internal Audit Plan is detailed in **Appendix 1** to this report.

The following audits have been completed since the last report to the Governance Committee (16<sup>th</sup> January 2020). **Appendix 3** provides a summary of the outcomes of these audits:

- Contract Management, Major Contracts – **Significant Assurance**
- Payroll – **Significant Assurance**
- Operations Quotations – **Significant Assurance**
- Planning Agreements – **Significant Assurance**
- Contract Management – **Limited Assurance**
- Housing Application Document Verification – **Limited Assurance**
- Investments – **Full Assurance**
- Risk Management – **Significant Assurance**
- Digital Strategy & Cyber Security – **Significant Assurance**
- Performance Management – **Significant Assurance**
- Manor Street Project – **Limited Assurance**

The proportion of planned work completed was affected by the following factors:

- Significant resources were spent conducting formal investigations
- Trainee Auditor post was vacant between June 2019 and September 2019
- A significant proportion of the Audit Manager's time is spent on Insurance work, and some time also spent on Fraud work
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

An external consultant conducted a review of a major contract, to elicit learning to support effective management of and decision making for future projects.

The Internal Audit Plan is prioritised, and Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales. Progress of and any changes to planned work is reported to the Corporate Governance Group.

## 3. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2020/21

The progress against 2020/21 Internal Audit Plan is detailed in **Appendix 2** to this report.



#### **4. REGULATION OF INVESTIGATORY POWERS ACT (RIPA) and INVESTIGATORY POWERS ACT (IPA) APPLICATIONS**

There were no RIPA / IPA applications in 2019/20 or to the date of producing this report.

#### **5. PROGRESS AGAINST THE EXTERNAL QUALITY ASSESSMENT ACTION PLAN**

The outcome of the External Quality Assessment of the Audit function against the Public Sector Internal Audit Standards (PSIAS) was reported to the Governance Committee on 12<sup>th</sup> April 2018. This assessment concluded the Council '*Partially Conforms*' to the PSIAS, and 22 recommendations, 10 suggestions and 4 observations were made by the assessor to support the Council in its journey to '*Generally Conforms*'.

Of the 22 recommendations:

- **18 have been completed**
  - relating to the Audit Charter; Annual Report (2); the Audit Insurance & Fraud Manager post; staff training and development; alignment of the Internal Audit Plan to Council risks and strategies (2); engagement of Senior Management in the Audit Planning process; reporting results of self-assessments against the PSIAS; quality assessments and reporting compliance (2); performance measures; risk based audit planning aligned to corporate priorities (2); Terms of Reference for audit assignments; reporting audit assignments (2); duration & scope of routine audits.
- **3 are generally complete:**
  - Reference is made in 2 recommendations to reporting to the Corporate Management Team, this is achieved via reporting to the Corporate Director (Resources) and the Head of Finance, rather than directly to the Management Team as a whole.
  - The assessor recommended inclusion of: governance and ethical objectives, service delivery, performance, and achievement of the Council's objectives in the scope of all audits – these areas have been included in audit scoping, and are included where appropriate but audits will not all include all suggested areas.
- **1 is in progress:**
  - Audit Manual – staff are provided with training, guidance, and templates. The incorporation into a wider audit manual is in progress

Of the 10 suggestions:

- **6 have been completed** – relating to the Audit Insurance & Fraud Manager meeting with the Chair of the Corporate Governance Group; reallocation of non-audit responsibilities; inclusion of reference to the annual Public Sector Networks compliance audit in the annual opinion; statement of conformance to the PSIAS in the annual report; classification of audits within the Audit Plan; statement on delivery of the Audit service.
- **2 are in progress** – Staff currently make declarations of compliance with principles, code of ethics, standards and Nolan principles via Audit reports, there is scope to introduce individual declarations, and review of the document retention policy.

- **2 are not expected to be taken forward** – the Senior Auditor is not seeking to obtain the CIA qualification, but is supported with relevant training (the Trainee Auditor is currently studying for the CIA qualification), and the Corporate Governance Group Terms of Reference do not acknowledge that the Audit Manager has direct access to the Chair of the Committee, however the Committee Chair has always been available for consultation.

And of the 4 Observations:

- **Use of Computer Assisted Audit Techniques (CAATs) for continuous auditing** – computer analysis is used where appropriate, but dedicated software not purchased at this time.
- **Audit Management system** – Options were reviewed, but pending implementation of Sharepoint to assess whether separate system is still appropriate.
- **Buying in specialist IT Audit Services** – potential suppliers identified, but many audits are capable of completion by general auditors. Specialist would be procured if/when required.
- **Proactive approach to change and audit team involvement in change projects** – team does provide ad hoc support and guidance with change, consultancy work is reported to the Corporate Governance Group.

## **6. SELF-ASSESSMENT AGAINST THE LOCAL GOVERNMENT APPLICATION NOTE (LGAN) (REFLECTING PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS))**

5.1. A full self-assessment of compliance against the LGAN checklist (which incorporates requirements from the PSIAS and the LGAN) has been completed. The assessment covers:

- **Mission** of Internal Audit
- **Definition** of Internal Auditing
- **Core Principles** (including integrity, competence and due professional care, objectivity and independence, alignment with corporate strategies objectives and risks, position (status) and resourcing, quality and continuous improvement, communication, assurance, future focus, promotes improvement)
- **Code of Ethics** (including integrity, objectivity, confidentiality, competency, and the Seven Principles of Public Life)
- **Attribute Standards** (including purpose authority and responsibility, independence and objectivity, and Quality Assurance and Improvement Programme)
- **Performance Standards** (including managing the internal audit activity, nature of work, engagement planning, engagement performance, communicating results, monitoring progress, and communicating acceptance of risk)

5.2. The completion of the assessment questionnaire determines whether the internal audit activity conforms, partially conforms, or fails to conform with the requirements of the PSIAS and the LGAN. My assessment is that the **Braintree District Council Internal Audit function Generally Conforms** with these requirements, the action plan below sets out arrangements for further development:

<b>PSIAS / LGAN</b>	<b>Description</b>	<b>Further Action</b>
<i>Demonstration of Core principles</i>	The Service performs work with honesty, diligence and responsibility, observes the law, is not knowingly party to illegal activity or discreditable acts, respects and contributes to legitimate and ethical organisational aims. This is reinforced in training and assessed in Audit Manager review of work.	Further <i>demonstration</i> would be achieved through use of a <b>declaration</b> signed by staff acknowledging compliance with these requirements This declaration will be introduced in 2020/21 See also Audit Manual below
Organisational Independence – reporting and management arrangements	The guidance suggests Chief Audit Executive (CAE) independence must be safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit, this could be achieved by feedback from the Board or Chief Executive.	<b>Feedback</b> would be the most practical approach, arrangements to be determined in conjunction with the Head of Finance (2020/21)
Proficiency and Due Professional Care	The guidance promotes the use of Computer Assisted Audit Techniques, whilst computer analysis is conducted and the Council engages in wider data matching exercises, there is scope to consider CAATS	To review options for <b>CAATS</b> use (2020/21)
Policies and Procedures to guide the internal audit activity	The function has a range of policies and procedures, checklists and pro-forma documents to guide the audit process, and training and experienced staff. The information is being drawn together in the form of a manual, this is in progress	<b>Audit Manual</b> to be completed, to include review of retention of audit records (2020/21)
Risk Management – Fraud Risk Assessment	Fraud risks are considered and fraud updates provided to Senior Management / Committee on Fraud risks and prevention / detection activity	<b>Fraud Risk Assessment</b> against <i>CIPFA Code of Practice on Managing the Risk of Fraud &amp; Corruption</i> (2020/21)

## **APPENDIX 1 – PROGRESS AGAINST THE 2019/20 INTERNAL AUDIT PLAN**

This Appendix summarises the work completed in respect of the 2019/20 Internal Audit Plan (approved by the Governance Committee in April 2019).

	<b>Audit Priority</b>		<b>Current Status</b>	<b>Report to Corporate Governance Group</b>
<b>2018/19 Revised Internal Audit Plan – Audits In Progress At April 2019</b>				
	Projects - Other	1	Completed	25 July 2019
	Asset Acquisitions	1	Completed	25 July 2019
	Business Continuity	1	Completed	25 July 2019
	Risk Management	1	Completed	25 July 2019
<b>2019/20 Internal Audit Plan – All Audits</b>				
1	Core Financial Systems	1	Completed/Ongoing	Note 1
2	Contract Management – Major Contracts	1	Completed	23 July 2020 See also Note 2
3	Online Payments system	1	In Progress / deferred to 2020/21 (see also Note 3)	
4	Payroll	2	Completed	23 July 2020
5	Overtime - Operations	2	Completed	25 July 2019
6	Operations Quotations	3	Completed	23 July 2020
7	Debtors Efficiency	3	Not completed – deferred to 2020/21	
8	North Essex Garden Communities (NEGC)	1	Not completed – deferred to 2020/21	
9	S106 Income	2	Completed	16 January 2020
10	Development Management	1	Completed	24 October 2019
11	Planning Agreements	2	Completed	23 July 2020
12	Community Transport Volunteers	2	Completed	16 January 2020
13	Handy Person Scheme	2	Completed	16 January 2020
14	Safeguarding	2	Completed	16 January 2020
15	Contract Management	1	Completed	23 July 2020
16	DVSA Compliance	2	Completed	16 January 2020
17	Agency staffing – Operations Service	2	Completed	25 July 2019
18	Taxi Licensing	2	Completed	25 July 2019
19	Organisational Learning	3	Not completed – deferred to 2020/21	
20	Pest Control	3	Not completed – deferred to 2020/21	
21	Housing Application Document Verification	2	Completed	23 July 2020
22	Investments	2	Completed	23 July 2020
23	Risk Management	1	Completed	23 July 2020
24	Business Resilience	2	Completed / Ongoing (further	16 January 2020

			work in 2020/21)	
25	Information Management	1	In progress – deferred to 2020/21	
26	Corporate Governance	1	Completed	24 October 2019
27	Digital Strategy & Cyber Security	1	Completed	23 July 2020
28	Culture & Ethics	2	In progress – deferred to 2020/21	
29	PCI DSS Compliance	2	In progress – deferred to 2020/21	
30	Uniform System - Street Scene Protection Scheme	3	Not completed – deferred to 2020/21	
31	Performance Management	3	Completed	23 July 2020
32	Strategic Investment Projects - Advisory	1	Completed / ongoing (update planned for October 2020)	23 July 2020 – Manor Street. See also Note 2
33	Annual Governance Statement (AGS)	1	Completed	16 January 2020
34	Follow Up Reviews	2	In Progress / ongoing	24 October 2019
35	Fraud Risks	2	Review of NFI Matches is ongoing	Fraud Update 16 January 2020
Additional Work Completed				
	Barclaycard purchases		Completed	25 July 2019
	Vending Machine funds		Completed	25 July 2019
	Fitness Class Income		Completed	25 July 2019
	Access Cards (Members)		Completed	25 July 2019
	Council Tax Review (Members)		Completed	25 July 2019
	Access to Partner Information System		Completed	24 October 2019

### **Notes:**

**Note 1:** The following work contributes to assurance on Core Financial Systems:

#### External Audit

External Audit reviews information supporting financial statements (including fraud risks, journals, transactions, grants, fees and charges, assets, MTFS assumptions, Capital & Revenue planning, budgeted savings, investment and borrowing) and information published with the financial statements (including the AGS)

#### Service Assurance Statements

As part of the process of preparing the AGS, Service Managers provide statements on the operation of key controls, including financial controls.

#### Payroll

(4) Payroll: Check (May 2019 District Election) Payroll system to ensure Members assigned correct allowances, and outgoing Members cancelled

(5) Payroll: Review of adequacy of checks on consultants timesheets

(17) Agency Staffing

(25) Information Management: review of security of data for Payroll Shared Service Investments

(2) Contract Management – Major Contracts

(22) Investments review of sources of assurance

Asset Acquisitions

Debtors

(9) S106 Income

(11) Planning Agreements

(13) Handy Person Scheme

Creditors & Payments

(15) Contract Management

Barclaycard Purchases

Council Tax/NDR

Council Tax Review (Members)

**Note 2:** *Contract Management – Major Contracts / Strategic Investment Projects – Advisory. An external consultant conducted a review of the Manor Street project (see Appendix 3), including to provide advice on contract Governance arrangements. The report has been issued, management responses to the matters raised are currently pending. An internal review of contract management has also been completed*

**Note 3:** *Online Payments system. Audit delayed for system implementation, further work will be conducted in 2020/21.*

## **APPENDIX 2 – PROGRESS AGAINST THE 2020/21 INTERNAL AUDIT PLAN**

This Appendix summarises the work completed in respect of the 2020/21 Internal Audit Plan (presented to the Corporate Governance Group in July 2020).

	<b>Audit Priority</b>		<b>Current Status</b>	<b>Date Report to Corporate Governance Group</b>
<b>2020/21 Internal Audit Plan – All Audits</b>				
1	Core Financial Systems – Back to Basics reviews	1		
2	Payments & Procurement	1	Terms of Reference (TOR) Drafted	
3	Contract Management – Major Contracts	1		
4	Online Payments System	2	In Progress	
5	Corporate Credit Cards	2		
6	Contract Procedure Rules & Financial Regulations	2		
7	Building Control Financial Processes	2	In Progress	
8	Debtors Recovery	2		
9	BACS system	3		
10	Business Grants	1	In Progress	
11	Joint Delivery Bodies	2		
12	Housing Application Document Verification	1		
13	Health & Wellbeing Grants	2	TOR Drafted	
14	Use & Distribution of Vouchers	2	TOR Drafted	
15	Contract Management	1		
16	Landlord Safety Checks	2		
17	Organisational Learning	3		
18	Pest Control	3		
19	Commercial Rents	2		
20	Risk Management	1		
21	Business Resilience	2		
22	Information Management	1		
23	Publishing Statutory Decisions	1	In Progress	
24	Cyber Security	1		
25	Information Technology Governance	2		
26	Culture & Ethics	2	In Progress	
27	GDPR – Document Retention	2	TOR Drafted	
28	PCI DSS Compliance	2	In Progress	
29	Uniform – Street Scene Protection Scheme	3		
30	Performance Management	3		
31	Manor Street Review	1		
32	Capital Sales & Purchase and	1		

	Related Contracts			
33	Strategic Investment	2		
34	Climate Change	2	TOR Drafted	

### **ADDITIONAL WORK COMPLETED**

Since the last report to the Corporate Governance Group, the function has provided ad hoc advice and guidance in a number of areas, including the following. No assurance levels are assigned to this work:

- Advice as part of handover of administration of door access cards
- Review of Member Council Tax accounts
- Consulted on Licensing application protocols
- Planning conditions and implication of potential delay by Council in meeting obligations
- Consulted on various activities relating to changes arising from Covid-19 response, including:
  - o Alternative procedures for payment of invoices.
  - o Support to Revenues Service relating to Business Rates Grants checks and Business applications.
  - o Community Hub payment arrangements.
  - o Advice to member of public who received letter purporting to be from the Council.
  - o Advice on External Audit access to Council systems.
  - o Protocols for administration of school grants.



### APPENDIX 3 - OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO CORPORATE GOVERNANCE GROUP (16<sup>th</sup> January 2020)

Recommendations reflect only High and Medium priority matters raised:

Audit	Overview of Scope	Summary of Findings	High / Medium Priority Recommendation(s)	Priority	Agreed / Responsible Officer / Action Date
<b>Contract Management – Major Contracts</b>  <b>Significant Assurance</b>	The audit reviewed the following: - Contract governance and oversight - Management of risks - Performance management - Payments and variations, including approval of variations - Contractor financial health - Review and learning	Areas of good practice: - Contract governance includes approval (Cabinet and Council) - Risks were identified and presented to Cabinet and Council as part of the approval process, risk assessments and financial checks were completed for contractors - Performance indicators were monitored for the Leisure contract	Risk register for I-Construct to be updated and monitored	High	Project Manager – July 2020
			Performance measures to be agreed and monitored	Medium	Commercial Manager – July 2020
			Ensure compliance with contract and payment terms	Medium	Leisure & Contract Manager – July 2020
			Identify and record learning from contracts to inform future work	Medium	Commercial Manager – July 2020
<b>Payroll</b>  <b>Significant Assurance</b>	The audit reviewed the following: - Payment of allowances to Members - Records for consultants pay	Areas of good practice: - Good communication between Governance and Payroll teams - Robust processes to ensure accuracy of Members payroll - Most services correctly place Marketplace orders for consultants	New order to be raised for each project, and identify cost and consultant time	High	Development Manager - Pending confirmation of timescale

	<ul style="list-style-type: none"> <li>- Checks on consultant timesheets / invoices</li> </ul>	<ul style="list-style-type: none"> <li>- Consultants invoices appropriately authorised</li> </ul>			
<b>Operations - Quotations</b>  <b>Significant Assurance</b>	<p>The audit reviewed the following:</p> <ul style="list-style-type: none"> <li>- Schedule of charges to ensure consistent pricing</li> <li>- Quotations reflect approved commercial charges</li> <li>- Charges cover the cost of work</li> <li>- Formal agreement with customer</li> <li>- Benchmarking for competitiveness</li> </ul>	<p>Areas of good practice:</p> <ul style="list-style-type: none"> <li>- Schedule of commercial charges is maintained in conjunction with the Service Accountant</li> <li>- Information held is used to provide quotations</li> <li>- Charges are formally agreed with customers</li> <li>- Administrative costs are reflected</li> </ul>	<p>Internal pricing to separately record administrative charges and profit margin</p> <p>Review charges against other providers to ensure competitive</p>	<p>Medium</p> <p>Medium</p>	<p>Operations Strategy and Policy Manager – August 2020</p>
<b>Planning Agreements</b>  <b>Significant Assurance</b>	<p>The audit reviewed the following:</p> <ul style="list-style-type: none"> <li>- How fees levied compared to Planning Performance Agreement approved fee structure, and whether fees paid in advance</li> <li>- Whether agreements are determined and signed before Planning</li> </ul>	<p>Areas of good practice:</p> <ul style="list-style-type: none"> <li>- Planning Performance Agreements follow a standard layout covering background and purpose, principles, policy context, resources and liaison, project programme and the signed agreement</li> <li>- Planning Services have an improvement plan including actions to ensure consistency in approach</li> <li>- Amounts due are subject to approval by the Planning Development Manager</li> </ul>	<p>Fee structure to be agreed with Financial Services and included in the Fees and Charges list for formal approval by Cabinet/Council</p> <p>Invoices for PPAs are raised in line with the agreement terms</p>	<p>Medium</p>	<p>Planning Development Manager May 2020</p>

	applications submitted				
<b>Contract Management</b>  <b>Limited Assurance</b>	<ul style="list-style-type: none"> <li>- Clarity and effectiveness of corporate approach to contract management</li> <li>- Management of contracts in accordance with requirements</li> <li>- Contracts register</li> </ul>	<b>Areas of good practice:</b> <ul style="list-style-type: none"> <li>- Commercial Manager has developed a contract and service review template and instigated training</li> <li>- Contracts within sample reviewed were in accordance with Council Contract and Procurement procedures</li> <li>- Various performance measures and monitoring processes have been adopted, and contracts were reviewed</li> </ul>	Implement template, including contract risk management, and training, across the authority	High	Commercial Manager July 2020
			Maintain central Contracts Register identifying all Council Contracts	High	Commercial Manager Sept 2020
<b>Housing Application Document Verification</b>  <b>Limited Assurance</b>	<ul style="list-style-type: none"> <li>- Protocols for ensuring authenticity of applicants</li> <li>- Officer awareness and application of document verification protocols</li> <li>- Procedures for referral of potentially false documents</li> </ul>	<b>Areas of good practice:</b> <ul style="list-style-type: none"> <li>- Documents received are scanned to the Gateway to Homechoice system</li> <li>- Some staff have received training in document verification</li> <li>- Where document is thought to be false, Senior management advice is sought, the application suspended and the authorities notified</li> </ul>	Update verification and references protocol to ensure original documents are checked  Ensure the checks are made on original documents  Update procedures to include protocols on the reporting mechanism for false documents	High	Senior Housing Assessment & Policy Officer July 2020
<b>Investments</b>  <b>Full Assurance</b>	<ul style="list-style-type: none"> <li>- Investment oversight arrangements are adequate to inform</li> </ul>	<b>Areas of good practice:</b> <ul style="list-style-type: none"> <li>- Council complies with CIPFA Prudential code and CIPFA Code of Practice on Treasury Management</li> </ul>	There were no required actions arising from this review	N/A	N/A

	<p>policy and practice</p> <ul style="list-style-type: none"> <li>- The Council acts on professional advice</li> </ul>	<ul style="list-style-type: none"> <li>- Annual and mid-term reports are provided to Members</li> <li>- Investments accord with the Treasury management strategy</li> <li>- Treasury Management advisors provide assurance and investments are subject to scrutiny</li> </ul>			
<b>Risk Management</b>  <b>Significant Assurance</b>	<ul style="list-style-type: none"> <li>- Up to date policy</li> <li>- Assessment of risk maturity</li> <li>- Up to date risk register, clearly identified risks, actions to mitigate</li> <li>- Ongoing monitoring and the effectiveness of controls to manage risks</li> </ul>	<p>Areas of good practice:</p> <ul style="list-style-type: none"> <li>- Strategic Risk Register is maintained, regularly updated and reviewed by the Corporate Management Team and the Corporate Governance Group</li> <li>- We confirmed existence of stated mitigating controls for 2 strategic risks (relating to service and project delivery and Affordable Housing)</li> </ul>	<p>A review of the Risk Policy Strategy &amp; Implementation plan is required, and regular review thereafter</p> <p>Risk management policy to be made easily accessible</p> <p>Review scope and content of the Strategic Risk Register in line with updated policy</p> <p>Process for maintaining up to date organisational risk registers linked to business planning</p> <p>Ensure risks are monitored to maintain below tolerance levels</p>	Medium	Head of Finance will review and update risk management arrangements December 2020
<b>Digital</b>	- Digital strategy risks	Areas of good practice:	Risk Registers to be	High	ICT &

<b>Strategy &amp; Cyber Security</b>  <b>Significant Assurance</b>	are identified reviewed and managed - Governance arrangements - Desired outcomes are realised - IT access controls are adequate - Authority is PSN compliant - Council suppliers comply with cyber security requirements	- Work is in progress against all targets stated in the digital strategy - Governance arrangements include the Digital Strategy Board, updates to the portfolio holder and Corporate Director oversight - Partnership working to promote high speed reliable broadband and increase education and apprenticeship opportunities - Cyber threats are monitored - Review of user access has been conducted - Council is PSN compliant - Suppliers complete an access agreement before access is provided to the Council's network	completed for all projects  IT Business Continuity and Disaster Recovery Plan to be kept up to date and tested regularly		Facilities Manager July 2020
<b>Performance Management</b>  <b>Significant Assurance</b>	- Data collection is robust and performance reporting is accurate - Results are clear and correctly presented	Areas of good practice: - Data collection was consistent and results recorded on the Corporate Performance management system	Standard formula to be used for calculating Disabled Facilities Grants data  Amend Fly Tipping performance indicator from 'within 24 hours' to 'cleared following working day'	Medium  Medium	Environmental Health Manager September 2020 Operations Manager September 2020
<b>Manor Street Project</b>  <b>Limited Assurance</b>	- Procurement for appointment of the agent and cost consultant - Agent and cost consultant advice - Project	Areas of good practice: - The Council's Procurement team sought to ensure compliance with Financial and Procurement Regulations, and documented appointment instructions	The review identified areas of improvement in controls and project governance arrangements which Senior Management are working to resolve.  Further details will be provided at the October 2020 Corporate Governance Group meeting.		

	management, governance and oversight processes - Tracking contract spend - To identify learning for future projects		
<p><b><u>Key:</u></b>  For the scope of objectives subject to review during the audit:</p> <p><i>Full Assurance</i>      Internal controls meet acceptable standards and are consistently applied.  Reasonable, but not absolute, assurance that adequate risk management and controls are in place.</p> <p><i>Significant Assurance</i>      Significant assurance that the internal control framework meets minimum acceptable standards.  Some weaknesses or inconsistent application in control means some risks are not adequately mitigated.</p> <p><i>Limited Assurance</i>      Internal control framework does not meet minimum acceptable standard.  Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement.</p> <p><i>No Assurance</i>      The internal control framework does not meet the minimum acceptable standards and no assurance can be given.</p>			

<b>Internal Audit Annual Report 2019/20</b>		<b>Agenda No: 31</b>
<b>Portfolio</b>	<b>Finance and Performance</b>	
<b>Corporate Outcome:</b>	<b>A high performing organisation that delivers excellent and value for money services</b>	
<b>Report presented by:</b>	<b>Angela Mitchell, Audit Insurance and Fraud Manager</b>	
<b>Report prepared by:</b>	<b>Angela Mitchell, Audit Insurance and Fraud Manager</b>	
<b>Background Papers:</b>		<b>Public Report</b>
None.		<b>Key Decision: No</b>
<b>Executive Summary:</b>		
<p>The Public Sector Internal Audit Standards requires the Head of Internal Audit to deliver an annual internal audit report and opinion that can be used by the organisation to inform its Annual Governance Statement. The annual audit opinion must conclude on the overall adequacy and effectiveness of the organisation's control framework of governance, risk management and control during the year.</p> <p>The Head of Internal Audit annual opinion provides a conclusion on the overall adequacy and effectiveness of the organisation's control framework of governance, risk management and control during the year 2019/20.</p> <p>The Annual Report from the Audit Insurance and Fraud Manager is attached, the conclusion from the 2019/20 work is that the Council's systems of internal control and the internal control environment provide reasonable assurance over key business processes and financial systems.</p>		
<b>Recommended Decision:</b>		
To accept the Internal Audit Annual Report for 2019/20.		
<b>Purpose of Decision:</b>		
To accept the Internal Audit Annual Report for 2019/20 in support of the Annual Governance Statement.		

Any Corporate implications in relation to the following should be explained in detail.	
<b>Financial:</b>	None.
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	To comply with the Public Sector Internal Audit Standards.
<b>Officer Contact:</b>	Angela Mitchell
<b>Designation:</b>	Audit, Insurance and Fraud Manager
<b>Ext. No:</b>	2821
<b>E-mail:</b>	Angmi@braintree.gov.uk



# INTERNAL AUDIT

## ANNUAL REPORT 2019/20

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## 1. PURPOSE

- 1.1. This is the annual report of the Audit Insurance and Fraud Manager (AIFM) as required by the Public Sector Internal Audit Standards (PSIAS) for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020.
- 1.2. The report includes the AIFM annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is based on:
  - The work carried out by Internal Audit during the year
  - Assurances provided by independent external sources
- 1.3. The report provides information on:
  - The delivery of the Internal Audit Plan;
  - Audit reports issued and issues of concern;
  - Implementation of agreed actions;
  - Internal Audit Performance; and
  - The quality assessment and improvement programme

## 2. BACKGROUND

- 2.1. The Local Government Act 1972 (s151) requires the Council to make arrangements for the proper administration of financial affairs, and the Accounts and Audit (England) Regulations 2015 require the Council to 'undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 2.2. The PSIAS require an annual report to be considered by the Committee fulfilling the role of the 'Board' as defined by the PSIAS – at Braintree District Council this falls within the remit of the Corporate Governance Group. This enables the Committee to review and monitor the outputs of internal audit activity and gain assurance that the function is fulfilling its statutory obligations. This process is an integral component of corporate governance. The PSIAS detail the matters that are required to be included in the annual report as:
  - The opinion;
  - A summary of the work that supports the opinion; and
  - A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.
- 2.3. The Local Government Application Note informs application of the PSIAS and defines requirements for Local Government Internal Audit.
- 2.4. The Internal Audit function must also comply with the IIA **Code of Ethics** – this is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing, including: **Integrity, Objectivity, Confidentiality, and Competency.**

### 3. THE ROLE OF INTERNAL AUDIT

#### 3.1. The PSIAS define the role of Internal Audit as:

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

#### 3.2. The Audit Insurance and Fraud Manager reports functionally to the Head of Finance and the Corporate Governance Group. The Audit Charter formally defines the purpose, authority and responsibility of Internal Audit.

#### 3.3. The AIFM had had no constraints placed upon her, and no impairments to independence and objectivity, in respect of: determining the overall audit coverage and access to Council systems, operations, records and officers; the audit methodology applied; the scope of Internal Audit work, performance of that work and communication of the results including proposing actions for improvement and forming opinions on individual audit reports issued.

#### 3.4. Internal Audit provides a combination of assurance activity (assessing the design and effectiveness of systems and processes) and consulting activity (guidance and advice for the development of those systems and processes). The assurance opinion is based on:

- Delivery of internal audit work and written reports from internal audit activity completed in the course of the year (audit work is planned to give sufficient assurance on the management of key risks)
- Observations from consultancy / advisory support
- Results of follow up work (to assess implementation of prior year recommendations)
- Notable changes to the Council's ambitions, processes, management structure and use of technology
- Review of assurance from other assurance providers
- Quality and performance of the Internal Audit Service and degree of compliance with the PSIAS.

### 4. OTHER ASSURANCE PROVIDERS

#### 4.1. Assurances are also taken from the following sources:

- **Service Leadership and Management:** Council Managers are the first line of defence and responsible for ensuring business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Managers are also responsible for ensuring there is a sound system of control which includes arrangements for managing risk. They are required to escalate key governance concerns or weaknesses as they occur.

- **Corporate Oversight Functions:** responsible for developing and designing governance and risk processes, and providing oversight, including:
  - Policies and procedures to guide and advise services (e.g. Risk Management Policy)
  - Ensuring services are compliant and meeting defined organisational requirements
  - Statutory Officer opinions over the governance of the Authority (Head of Paid Service, S151 Officer, and Monitoring Officer)

## 5. OVERALL OPINION

### **Audit Opinion: Generally Adequate, with some improvement required**

I am satisfied that adequate work has been undertaken to draw a reasonable conclusion on the adequacy and effectiveness of the Council's arrangements. Based upon work undertaken and review of statements from external assurance providers, *it is my opinion that the Council's systems for internal control, risk management and governance as at 31<sup>st</sup> March 2020 generally provide adequate assurance that key business processes and financial systems accord with proper practice, although some improvements are required to address areas of weakness and non-compliance which may put achievement of objectives at risk.*

Eighteen audit reviews conducted in 2019/20 resulted in a 'Full or Substantial' assurance opinion.

Three reviews were given a 'Limited Assurance' opinion. The Council generally has a positive approach to improvements; for two of these reviews actions have been agreed and are being implemented. Senior Management are in the process of determining actions to resolve matters raised in the third.

The Council's response to Covid-19 since March 2020 has led to inevitable changes to processes and procedures, which may impact on the usual control framework and may increase the Council's exposure to risk, loss and fraud. Internal Audit have provided assurance and advice as required during this period, and the 2020/21 Internal Audit will reflect potential risk areas.

**Angela Mitchell**

**Audit Insurance and Fraud Manager**

July 2020

5.1. The Head of Audit Annual Report provides the Corporate Governance Group with an opinion for inclusion in the Annual Governance Statement (AGS). The overall opinion for 2019/20 is that the internal control environment is *generally adequate, with improvement required in some areas*. If significant changes occur to the internal control environment prior to the Committee approving the AGS the Corporate Governance Group will be informed.

5.2. Limitations to the Annual Opinion:

5.2.1. Assurance can never be absolute. The audit opinion reflects the AIFM view on the current state of the internal control environment and the effectiveness of the current systems of internal control across the Council on the basis of the

audit work conducted. There may be weaknesses in the systems of internal control that we are not aware of because they did not form part of our programme of work or were not brought to our attention. Not every Council activity or risk will be subject to audit coverage in any one year, this report provides further narrative on the scope of our work.

5.2.2. Whilst much of the 2019/20 planned work is complete (or substantially complete) the changes and workload arising from Covid-19 experienced by both the Audit Insurance & Fraud team and our colleagues across the Council, has affected final completion of some reviews. Where appropriate, work not completed in 2019/20 will be carried forward to the 2020/21 Internal Audit Plan.

5.3. In preparing the Internal Audit Plan for 2019/20, managers were consulted to determine any planned reviews by external organisations from which assurance could be obtained on the operation of the internal control environment and systems of internal control. We noted the following sources of assurance:

- The statutory external audit of accounts and grant certification work. The External Audit work for 2019/20 is currently in progress. (The External Auditor Annual Completion Report for 2018/19, presented to the Corporate Governance Group on 24 October 2019, gave an unmodified audit opinion on the financial statements and use of resources)
- Reviews by Productivity Expert and Commercial Manager supporting the Council's approach to contract management
- Operations / contracts related Benchmarking by Commercial Manager
- Oversight of Garden Communities by Legal and Finance staff
- Oversight of Investments by advisors, External Audit and Members
- Strategic Information Governance Group oversight of information management
- PSN Customer Compliance (annual assessment)
- Driver Vehicle Standards Agency
- We also considered the work of other internal oversight and review functions, including:
  - Risk Management oversight and reporting
  - Performance management
  - Financial performance management and reporting

5.4. The PSIAS require that where the 'Chief Audit Executive' (Audit Manager for Braintree District Council) has responsibility for matters beyond internal auditing, that these are periodically highlighted to the Board (Corporate Governance Group for Braintree District Council) for review. The Audit Manager also has functional responsibility for Insurance and Fraud, and has adopted appropriate safeguards as defined in the Internal Audit Charter.

## 6. DELIVERY OF THE 2019/20 INTERNAL AUDIT PLAN

6.1. The 2019/20 Internal Audit Plan related audit work to the Council's Strategic Risks and Corporate priorities, and was developed following consultation with the Chief Executive, Directors and Heads of Service, and also a wider risk

assessment of relevant factors to determine audit needs. The Audits were prioritised and an outline scope recorded.

6.2. During 2019/20 the following staffing changes and other activities affected the resources available for completion of the 2019/20 Planned work:

- The AIFM continues to respond to the action plan arising from the External Quality Assessment of Internal Audit (undertaken in December 2017), to ensure the work and outputs accord with the requirements of the Public Sector Internal Audit Standards, including developing the team approach and procedures such as relating to audit planning and reporting arrangements. This development is ongoing.
- The AIFM guides staff and Members on the role and approach of Internal Audit.
- The AIFM's time was allocated to other management responsibilities including Insurance and Fraud. The Insurance aspect of the role is significant with resources allocated to building knowledge of the insurance portfolio and requirements and preparing for insurance renewals and re-tender.
- Audit resources were spent on unplanned investigation work.
- The Audit Team have provided corporate support in areas outside the normal remit of Internal Audit, and consultancy and advice in a number of areas to support colleagues across the Council.
- The Trainee Auditor resigned and left the Council in July 2019, her replacement joined the Council in September 2019.
- The impact of Covid-19 on the corporate workload made completion of 2019/20 Planned audits challenging, however the Council has responded to the pandemic in an agile and effective way.

6.3. Audit work in respect of the 2019/20 Internal Audit Plan was conducted with due regard to the relative priority of audits. Audits conducted in 2019/20 generally resulted in either a Full or Substantial assurance rating. As a consequence of subsequent actions and wider risk mitigation there are no areas of concern within those reviews that require to be brought to the attention of the Governance Committee.

6.4. Three reviews resulted in a Limited Assurance outcome:

- Manor Street Project: the review identified areas of improvement in controls and project governance arrangements which Senior Management are working to resolve (further details are expected to be provided to the Corporate Governance Group in October).
- Contract Management: actions to improve completion of appropriate documentation, and completeness of records, have been agreed and are in the process of being implemented.
- Housing Application Document Verification: actions to improve procedures have been agreed and are in the process of being implemented.

6.5. The reports completed for 2019/20 were as follows (audit outcomes are notified to the Governance Committee as audits are completed). Assurance levels are for the scope of work performed:

No: Recommendations:	High Priority	Medium Priority	Low Priority
<b>FULL ASSURANCE (no recommendations)</b>			
Overtime - Operations			
S106 Income			
Community Transport Volunteers			
Agency Staffing - Operations			
Taxi Licensing			
Investments			
Corporate Governance			
<b>SUBSTANTIAL ASSURANCE</b>			
Payroll	1	-	2
Risk Management	-	5	1
Development Management	-	1	1
DVSA Compliance	-	1	-
Planning Agreements	-	2	-
Handy Person Scheme	-	1	-
Safeguarding	1	-	-
Digital Strategy & Cyber Security	2	-	-
Operations - Quotations	-	2	-
Performance Management		2	3
Contract Management – Major Contracts	1	3	-
<b>LIMITED ASSURANCE</b>			
Contract Management	2	-	-
Housing Application Document Verification	3		
Manor Street Project	11	2	1
<b>Additional Work was completed in the following areas, no assurance level assigned</b>			
Barclaycard Purchases			
Vending machine records			
Funds paid by staff			
Conflicts of Interest, and staff declarations of interest, gifts and hospitality			
Member Door access cards			
Follow Up reviews (implementation of previous audit recommendations)			
Various ad hoc consultancy and advice			
<b>Some work also performed in the following areas - no opinion assigned, further work is scheduled in 2020/21</b>			
Organisational Learning			
Culture & Ethics			
Online Payments System			
Pest Control			
PCI DSS			

*Definitions of assurance levels are detailed at the end of this report*

- 6.6. Audits in the 2019/20 Internal Audit Plan which were not completed have been reviewed as part of the 2020/21 Internal Audit Planning process, and where appropriate included in the 2020/21 Plan.



## 7. INTERNAL AUDIT PERFORMANCE

7.1. Internal Audit Performance is assessed in the following qualitative ways:

- Delivery of the 'Head of Internal Audit' Annual Opinion, including statement on compliance with the Public Sector Internal Audit Standards (PSIAS).
- Proportion of Strategic Risks Over Which Assurance is Provided.
- Implementation of Agreed Actions.
- Stakeholder engagement.

7.2. **Delivery of the 'Head of Audit' Annual Opinion:** The Function must perform sufficient annual coverage to enable an opinion to be given on the state of governance, risk management and internal control, considering the organisation's risk profile and focussing work on the areas which matter the most, and reflecting on other areas of assurance. In addition, the PSIAS require the Internal Audit activity to collectively possess the knowledge, skills and other competencies needed to perform its responsibilities.

- *The coverage of audit work performed in 2019/20 is identified in Section 6 above.*
- *The Head of Audit (Audit Insurance and Fraud Manager) is a Chartered Internal Auditor with over 26 years of experience in Internal Audit gained across a number of Public Bodies.*
- *The Senior Auditor has over 31 years of experience in Internal Audit at Braintree District Council.*
- *The Trainee Internal Auditor commenced employment in Internal Audit in 2019 and is studying for the Certified Internal Auditor qualification.*
- *The function's annual opinion is delivered to the Corporate Governance Group in July 2020 (deferred from the April 2020 meeting).*
- *See below re Quality Assurance and Improvement Programme re statement on compliance with the PSIAS.*

7.3. **Proportion of Strategic Risks Over Which Assurance is Provided:** The 2019/20 Internal Audit Plan identified audit priorities relating to each Strategic Risk, and also linked audits to Corporate priorities.

- *Audits and other work were performed across **all** Strategic Risks and Corporate Priorities - the Audit Plan identifies the scope of coverage for each. Some further audit work was commenced in 2019/20 and is included in the 2020/21 Internal Audit Plan to enable completion.*

7.4. **Implementation of Agreed Actions:** High and Medium priority recommendations are subject to follow up work by Internal Audit. For audits where the agreed completion date has elapsed, we have confirmed recommendations have been implemented. Follow up work is ongoing, we recognise that the Covid-19 Pandemic has led to other service priorities across the Council and that implementation of some recommendations will be delayed as a result.

- *Of the 2 High priority recommendations made in 2018/19*



- 2 - we are awaiting an update from the service to confirm the status of implementation
- Of the 23 Medium priority recommendations made in **2018/19**
  - 16 - have been confirmed as completed
  - 7- we are awaiting an update from the service to confirm the status of implementation
- Of the 21 High priority recommendations made in **2019/20**:
  - 8 - are not yet due
  - 13 – are pending confirmation of action date from service
- Of the 19 Medium priority recommendations made in 2019/20:
  - 1 – is complete
  - 7 – are not yet due
  - 7 – are pending confirmation of action date from service
  - 4 – we are awaiting an update from the service to confirm the status of implementation

7.5. **Stakeholder Engagement:** Effective Internal Audit relationships benefit from engagement between the Internal Audit function and the business for the planning, conduct and reporting of engagements, and for liaison on matters affecting internal control, governance and risk management.

- *The AIFM engages with Senior Managers as part of the Internal Audit Planning process.*
- *Internal Audit staff engage with audit sponsors to agree the scope of the audit, in conducting fieldwork, and to agree the content of reports and management response.*
- *Auditee response to issues raised is positive, with improvement actions agreed.*
- *The approach to Audit Planning is reported to the Corporate Governance Group and overseen by the Corporate Director, and Head of Finance.*

## 8. QUALITY ASSURANCE & IMPROVEMENT PROGRAMME (QAIP)

8.1. The PSIAS require an annual self-assessment against the PSIAS to be performed at least annually, and an external assessment to be conducted at least once in every 5 years, and for a commentary on compliance with the PSIAS to be included within the Annual Report.

- *An External Quality Assessment (EQA) against the PSIAS was conducted in December 2017 and reported to the Governance Committee.*
- *Self-assessment against the EQA Action Plan and the PSIAS Local Government Application Note is conducted at least annually and the results reported to the Corporate Governance Group. The Internal Audit function continues to develop approaches in accordance with best practice and the PSIAS. An update on implementation of the Action Plan arising from the EQA will be included in the Internal Audit Progress Report to the Corporate Governance Group in July 2020.*

- *During 2019/20 the internal audit function progressed from partial compliance with the requirements of the PSIAS, and adopted changes to achieve 'generally conforms.'*
  - *The internal audit function has complied with the definition of Internal Audit (see paragraph 3.1 above).*
  - *The internal audit function has complied with the Code of Ethics (see paragraph 2.4 above).*
  - *The internal audit function generally conforms with the PSIAS and the Local Government Application Note.*
- 8.2. Quality assurance is achieved through establishing practices which maintain performance, including the day to day supervision, review and measurement of internal audit activity which is built in to routine procedures:
- *Team outputs are reviewed by the AIFM, or the Senior Auditor in her absence, including: Terms of Reference, Working Papers, and the Audit Report. A review sheet is completed with commentary on the results of the review. The AIFM has experienced a high insurance workload, and as such there has been some delay in review of some audit documentation.*
  - *The team engages in continuous improvement activity to ensure a consistent and up to date approach is adopted. Guidance is provided to staff by the AIFM, and staff periodically attend other organised topical training events and read Internal Audit professional publications. In addition the team maintains active engagement with other Essex Internal Audit functions through the Essex Audit Group.*
- 8.3. A review of fraud related corporate policies and procedures identified a number which require review to ensure they continue to meet requirements. These were reported to the Corporate Governance Group in January 2020. Revised Policies have since been prepared (for RIPA/IPA and Anti Money Laundering), these will be presented to the Corporate Governance Group.

## 9. CORPORATE GOVERNANCE GROUP

- 9.1. The work of Internal Audit is reported regularly to Members via the Corporate Governance Group, this provides Members with an opportunity to review and monitor the Internal Audit team outputs, and gain assurance that the function is fulfilling its statutory obligations. The reporting to the Corporate Governance Group is an integral component of corporate governance.
- 9.2. Internal Audit reporting to the Corporate Governance Group includes the following:
- The Internal Audit Plan, including the process for determining the Audit Plan.
  - Progress of audit work and performance against the plan, including outputs from audit work.
  - The results of reviews of Compliance with the Public Sector Internal Audit standards.
  - The Head of Audit Annual Opinion.
  - Any matters of concern will be reported as they arise.

## 10. DEFINITIONS

OVERALL AUDIT OPINION	
<b>Full Assurance</b>	Internal controls meet acceptable standards and are consistently applied. There is reasonable, but not absolute, assurance that adequate risk management and controls are in place for the activity.
<b>Significant Assurance</b>	There is significant assurance that the internal control framework meets the minimum acceptable standards. Some weaknesses or inconsistent application in controls mean that some risks are not adequately mitigated.
<b>Limited Assurance</b>	The internal control framework does not meet the minimum acceptable standard. Some weaknesses or inconsistent application in controls mean that some risks are not adequately mitigated and require significant improvements.
<b>No Assurance</b>	The internal control framework does not meet the minimum acceptable standards and no assurance can be given.

RECOMMENDATION PRIORITY	
<b>High</b>	Can have a significant impact on operational performance so essential to provide satisfactory control of serious risk.
<b>Medium</b>	Can have a moderate impact on operational performance so important to provide satisfactory control of risk
<b>Low</b>	Minor impact on operational performance but offers improvement to internal control

### Internal Control Environment:

Comprises the systems of governance, risk management and internal control. The key elements of an organisation's control environment include:

- Establishing and monitoring objectives.
- Policy and decision making which ensures compliance with established policies, procedures, laws and regulations.
- Embedding risk management.
- Economical, effective and efficient use of resources, and continuous improvement.
- Financial management and the reporting of financial management.
- Performance management and reporting of performance management.

**Angela Mitchell, Audit Insurance and Fraud Manager**

**7<sup>th</sup> July 2020**

Draft Internal Audit Plan 2020/21		Agenda No: 8
Portfolio	Finance and Performance Management	
Corporate Outcome:	A high performing organisation that delivers excellent and value for money services	
Report presented by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Report prepared by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Background Papers:	Public Report	
None.	Key Decision: No	
Executive Summary:		
<p>The purpose of this report is to present the draft Internal Audit Plan for 2020/21 to the Corporate Governance Group for consideration and approval.</p> <p>The Internal Audit Plan builds on the previous year’s work and is based on the corporate risks facing the Council and linked to the Council’s Corporate Priorities. Delivery of the Plan is dependent on resources, and on changing audit needs which may arise during the year. Progress against the Audit Plan and additional work completed will be reported to future meetings of the Corporate Governance Group.</p> <p>A copy of the draft Internal Audit Plan for 2020/21 is attached (Appendix 1).</p>		
Recommended Decision:		
<p>Members endorse the Internal Audit Plan process and draft Internal Audit Plan for 2020/2021.</p>		
Purpose of Decision:		
<p>The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Corporate Governance Group, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.</p> <p>Members are requested to endorse the draft 2020/21 Internal Audit Plan which has been prepared in accordance with the Accounts and Audit Regulations 2015 (Section 5), requiring an effective internal audit of risk management, control and governance processes taking into account the Public Sector Internal Audit Standards and guidance.</p>		

**Any Corporate implications in relation to the following should be explained in detail.**

<b>Financial:</b>	None.
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	None.
<b>Officer Contact:</b>	Angela Mitchell
<b>Designation:</b>	Audit, Insurance and Fraud Manager
<b>Ext. No:</b>	2821
<b>E-mail:</b>	Angie.mitchell@braintree.gov.uk

## **1. INTERNAL AUDIT PLAN 2020/21 - INTRODUCTION**

The Public Sector Internal Auditing Standards (PSIAS) require Internal Audit to produce a risk based Internal Audit Plan that:

- Gives the '*Chief Audit Executive*' (CAE) sufficient evidence to provide an annual audit opinion on the Council's framework of governance, risk management and internal control based on the outcome of planned work;
- Uses existing sources of assurance where possible, and;
- Demonstrates how internal audit work is linked to the Council's objectives and significant risks, and therefore provide relevant assurance.

The PSIAS also require the Audit Committee (Corporate Governance Group for this Council) to approve but not direct the Audit Plan. This means the Committee may challenge whether the plan is sufficient and adequately focussed, particularly given the plan's purpose to provide the Committee (as those charged with governance) with a key source of assurance to be considered when it decides whether to recommend the Annual Governance Statement for signing by the Chief Executive and Leader of the Council.

### **1.1. INTERNAL AUDIT PLANNING PROCESS**

The proposed Internal Audit Plan 2020/21 relates audit work to the Council's corporate risks. Delivery is dependent on resources and planned work is prioritised to ensure resources are focussed on the areas of greatest audit need. The time on each review will be responsive to relative priority and ongoing assessment throughout the audit, if additional resources are considered necessary to enable delivery of priority planned work this will be communicated to Senior Management and the Corporate Governance Group.

The Plan has been developed following meetings with most Senior Managers and Directors to discuss their services and key objectives and risks, the feedback from these meetings informed a wider risk assessment that prioritised the Council's activities for audit coverage considering the following factors:

- Corporate priorities and risks, risk management (including fraud risks), and significant projects or proposals linked to corporate priorities;
- Significant changes to systems, structures, delivery models or governance;
- Assessments of systems of internal control (including recent Internal Audit assurance or assurance from reliable third parties), known or suspected weaknesses or concerns (including relating to performance or data quality) and any areas where assurance is sought;
- Inherent risk (such as whether the activity has significant income or expenditure, reputational sensitivity, inherent complexity, whether third parties are involved in delivery or if there is a high potential risk of fraud);
- The regulatory environment;
- Effectiveness of governance arrangements (including oversight arrangements and complexity of operations), and;
- Horizon scanning to assess new risks and challenges.

The Plan is structured around the Council's corporate risks and is linked to the Council's strategic priorities, and includes a number of other activities that, whilst not

audits, are chargeable to the audit plan as they are integral to its delivery, these activities include audit planning, reporting to the Corporate Governance Group and other audit management tasks such as reviewing the audit charter.

The draft Internal Audit Plan is attached at **Appendix 1** to this report.

**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
<b>Risk 1 Medium Term Financial Strategy:</b> Resource shortfall and savings not achieved, arising from deviation from revenue and efficiencies required to meet funding changes. Triggered by changes in achievability of planned cost reductions/income, incorrect financial assumptions, and funding changes						
1	Core Financial Systems – Back to Basics Reviews	<p><i>Periodic reviews of core financial systems are considered for significant changes in system or processes, and to provide assurance over Business as Usual. Systems include: Debtors, Creditors, Business Rates, Council Tax, LCTS, Investments, Payroll, Cash &amp; Bank, and General Ledger</i></p> <p><i>The Council's response to Covid-19 has resulted in some changes to controls and the way the Council operates, we will conduct 'Back to Basics' reviews in key areas to ensure basic controls and oversight arrangements are maintained, and will review a selection of transactions from the pandemic period</i></p>	1	Assurance	Delivering & Innovating	Head of Finance
2	Payments and Procurement	Review of orders and payment of invoices processed by the Payments Team to ensure compliance with Procurement and Contract Procedure Rules	1	Assurance	Delivering & Innovating	Head of Finance
3	Contract Management – Major Contracts	Ensure project management protocols exist and are applied in practice - including: business case, defined governance arrangements, risk management, budget management (including liaison with Financial Services), review of viability, and Planning Service consultations	1	Assurance / Alternative Sources of Assurance	Delivering & Innovating	Heads of Strategic Investment, Finance & Governance

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits



**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
		Review of any third party assurance (such as from the Council's Commercial Manager)				
4	Online Payments system	Review of the link between online payments / bookings to back office systems to ensure records are accurate and updated in a timely manner Identify any service areas still handling cash	2	Assurance	Delivering & Innovating	Head of Finance
5	Corporate Credit Cards	Review authorisation of card holders and card users, user agreements, expenditure review, reconciliation, challenge	2	Assurance	Delivering & Innovating	Head of Finance
6	Contract Procedure Rules and Financial Regulations	Ensure Rules reflect current arrangements, assess arrangements for ensuring knowledge of and adherence to by all staff and contractors/ consultants.  Benchmark with best practice and other Local Authorities	2	Compliance	Finance & Performance	Head of Finance / Head of Governance
7	Building Control Financial processes	Setting, recording and charging of fees, monitoring and reconciliation to ensure income received	2	Assurance	Delivering & Innovating	Head of Finance / Head of Environment
8	Debtors Recovery	Review of effectiveness of recovery processes applied, ensuring use of all available recovery options	2	Assurance	Delivering & Innovating	Head of Operations
9	BACS system	Review of authorisations and approval routes to ensure permissions are appropriate and segregation of duties exists	3	Assurance	Delivering & Innovating	Head of Finance

**Risk 2 Economic Development:**

Planned District economic growth not achieved, arising from Businesses becoming disengaged with the District, arising from insufficient support for businesses, skills gaps, inadequate infrastructure, and macroeconomic uncertainty

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits

**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
10	Business Grants	Support to Revenues Team in review of Business Grants against Government Guidance for detection of fraud	1	Compliance	Promoting Prosperity	Head of Finance
<i>In addition to the above audit, there are links to the work of Strategic Investment in creating business growth, these reviews are listed separately</i>						
<b>Risk 3 Planning and Garden Communities:</b> Until the Local Plan is adopted it provides only limited weight in decision making. The Council must deliver a high number of homes, Part 3 of the Plan proposed three new cross boundary garden communities and a company has been set up to deliver growth						
11	Joint Delivery Bodies	High level review of governance arrangements, communication and decision making framework, and management of partnership risks. <i>This review will include any organisation associated with delivery of planned housing</i>	2	High level assurance / alternative sources of assurance	Connecting People and Places	Heads of Finance, Legal and Economic Development & Planning
<b>Risk 4 Community Resilience:</b> Increased demand for temporary housing and housing related payments, and increased poverty, arising from increased demand for services following introduction of Universal Credit, reductions in ECC Housing Related Support Funding, and the Homelessness Reduction Act						
12	Housing Application Document Verification	Review to gain assurance over implementation of recommendations made in 2019/20 review	1	Follow Up	Connecting People & Places	Head of Housing
13	Health & Wellbeing Grants	Ensure grants are paid in accordance with approved policy, reviewed to ensure spent in accordance with application, and evidence retained to demonstrate compliance	2	Assurance	Supporting Our Communities	Heads of Housing / Environment
14	Use and Distribution of Vouchers	Ensure implementation of learning from previous review - Voucher recording, security, segregation of duties, reconciliation, payments in accordance with Council protocols, and management oversight	2	Follow Up / Assurance	Supporting Our Communities	Head of Environment

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits

**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
<b>Risk 5 Service and Project Delivery:</b> Service and project delivery failure arising from inadequate capability and capacity and resulting in errors, reduced controls, breaches of procedures, and disengaged staff						
15	Contract Management	Following on from 2019/20 review, assess further sample of contracts for compliance with good contract monitoring and management protocols	1	Assurance / Alternative source of assurance	Delivering & Innovating	Corporate Director
16	Landlord Safety Checks	Defined requirements, process for ensuring checks are conducted, defects are resolved, and records maintained	2	Compliance / Assurance	Connecting People & Places, Supporting Our Communities	Corporate Director
17	Organisational Learning	Review effectiveness of arrangements for organisational learning, including from project post implementation reviews, internal and external assessments.	3	Governance & Assurance	Delivering & Innovating	Corporate Director
18	Pest Control	Overview of set up of 'My Account' including data accuracy and security, and fraud risks	3	Assurance	Delivering & innovating	Head of Environment
<b>Risk 6 Affordable Housing and Homelessness</b> Affordable housing needs not met, resulting in increased demand on temporary accommodation, withdrawal of housing associations from supported housing schemes, and inability to provide suitable supported accommodation for larger families and under 35's <i>No reviews directly associated with affordable housing or Homelessness. Reviews were conducted in these areas in 2018/19 and 2019/20, and implementation of agreed actions will be followed up.</i>						
<b>Risk 7 Return on Investments:</b> Loss of investment principle or interest, or loss of rental income and increased costs (such as unoccupied business rates) arising from failure of investment counterparty, tenant ceasing trading, or collapse of equity market						
19	Commercial Rent	Determination of lease arrangements including rent reviews, correct rent is charged, arrangements for rent deposits, reconciliation of income to rent,	2	Assurance / alternative sources of assurance	Delivering & Innovating / Promoting Prosperity	Corporate Director

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits

**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
		protocols for non-payment, and compilation and reporting of management information				
<b>Risk 8 Emergency Planning</b> Inadequate civil contingency arrangements leading to failure to respond appropriately to a major incident or civil emergency, or inability to deliver key / critical services, arising from inadequate preparation, plans or trained staff						
20	Risk Management	Overview of corporate risk management framework and risk maturity, ensuring risk management processes support and align with Council priorities and strategic objectives, and response to risks identified aligns with the defined risk appetite Review of sample of risks to assess existence and effectiveness of mitigating controls	1	Risk management	Delivering & Innovating	Corporate Director / Head of Finance
21	Business Resilience	Review of reliance on key staff identified through Business Continuity arrangements	2	Assurance	Delivering & Innovating / Supporting Our Communities	Head of Environment Leisure & Heritage
<b>Risk 9 Information Management and Cyber Security</b> Loss of ability to deliver services, or inability to protect personal and sensitive customer data arising from inadequate information management and vulnerability to Cyber attack						
22	Information Management	Review arrangements for the Payroll Shared Service to ensure adequate security over data relating to the difference Authorities Review of compliance against key GDPR requirements, including for significant databases (Economic Development & Planning Policy) Review storage of data for sample of areas Support to Corporate Strategic Information Governance Group	1	Governance /Compliance/ IT / Alternative source of assurance	Delivering & Innovating	Head of Governance

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits

**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
23	Publishing Statutory Decisions	Ensure awareness of requirements for publication of decisions as required by delegated authority, and timeliness and accuracy of publication of decisions	1	Governance	Delivering & Innovating	Head of Governance
24	Cyber Security	Review current compliance with PSN requirements	1	Governance/ IT, alternative source of assurance	Delivering & Innovating	Corporate Director
25	Information Technology Governance	High level review to ensure Leadership have articulated a clear vision for understanding and communicating how IT supports and enables delivery of strategic objectives	2	Governance / IT	Delivering & Innovating	Corporate Director
26	Culture & Ethics	High level review of arrangements for ensuring positive culture and ethical approach <i>EQA recommendation to include this in the Audit Plan</i>	2	High level / Culture & Ethics	Delivering & innovating	Head of Governance
27	GDPR – Document Retention	Review service arrangements for maintenance of Document Retention policies, monitoring adherence to those policies, identification of documents to review, and disposal in accordance with policies	2	Assurance	Delivering & innovating	Head of Governance
28	PCI DSS Compliance	Review of arrangements for ensuring compliance with the Payment Card Industry Data Security Standards, including review of self-assessment	2	Assurance	Delivering & Innovating	Head of Finance
29	Uniform System - Street Scene Protection Scheme	Review of system inputs and outputs, accountability, management controls and information	3	Assurance	Enhancing Our Environment	Head of Operations
30	Performance Management	Sample check of performance indicators to review relevance of measures, robustness of data collation and accuracy of presentation of results	3	Assurance	various	Head of Finance

\* Priority:

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**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
<b>Risk 10 Strategic Investment</b> Expected Financial return not realised from projects or District Investment Strategy targets not delivered, arising from lack of investment, or house price / commercial rent deflation						
31	Manor Street Review	Follow up to ensure implementation of recommendations made in the 2019/20 review	1	Assurance	Promoting Prosperity	Corporate Director / Head of Strategic Investment
32	Capital Sales & Purchases, and Related Contracts	Protocols to ensure due diligence approach to evidence viability, including consultation with Legal Services, clear authority and decision making process from proposal to action (or decision to not proceed) with adequate challenge, recording and publishing decisions, and adequacy of contract records held	1	Assurance	Delivering & Innovating / Promoting Prosperity	Corporate Director / Heads of Finance & Governance
33	Strategic Investment	Identify fraud risks for Strategic Growth and assess against protocols	2	Assurance	Promoting Prosperity / Delivering & Innovating	Corporate Director / Head of Strategic Investment
<b>Risk 11 – Climate Change</b> The Council has declared a climate emergency with an aim to make the Council's activities, as far as practical, carbon neutral by 2030						
34	Climate Change	Review of actions in climate change action plan, public perception, achievability of target delivery, services are changing working practices in accordance with the action plan, and up to date and accurate sustainable teams policies	2	Assurance	Delivering & Innovating / Supporting Our Communities	Head of Environment Leisure & Heritage
<b>Other Planned Work</b>						

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**DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
35	Annual Governance Statement	<ul style="list-style-type: none"> <li>- Review of process for producing and evidence supporting the Council's AGS</li> <li>- Ensure the AGS covers all elements set out in best practice</li> <li>- Ensure Assurance statements have been obtained to support the elements of the AGS</li> <li>- To confirm areas of improvement identified in the AGS are clear and have action plans in place with arrangements for monitoring progress</li> </ul> <p><i>See also audits of specific governance arrangements</i></p>	1	Assurance	Delivering & Innovating	Head of Finance
36	Follow Up Reviews	We will follow up all Limited Assurance reports and review evidence of implementation of high and medium priority recommendations from previous year	2	Follow Up	Various	Various
37	Fraud Risks	<ul style="list-style-type: none"> <li>• Unit 4 Fuel system – proactive review of set up of system and monitoring arrangements to give comfort of correlation between fuel usage and vehicle profile</li> <li>• Commercial Waste – identify fraud risks and ensure protocols exist to detect / prevent such fraud</li> <li>• NDR / CT – identify fraud risk areas and review against monitoring</li> <li>• Recruitment – identify fraud risk areas and review against recruitment practice</li> </ul> <p><i>(See also Risk 10 above)</i></p>	2	Advisory / alternative source of assurance	Various	Various

\* Priority:

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3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits

# **DRAFT INTERNAL AUDIT PLAN 2020/21**

Ref	Audit Title	Outline Scope	Priority *	Review Type	Links to Corporate Priorities	Audit Sponsor
38	Additional work	Additional work arising during the year will be accepted where relevant to the provision of the opinion over corporate governance, risk or internal control, and to corporate priorities or strategic risks		various	Various	various
<b>Other Activity Chargeable to the Audit Plan</b>						
	Audit Planning	To develop the 2020/21 Internal Audit Plan				Head of Finance
	Report to the Corporate Governance Group	To prepare reports required by the Corporate Governance Group throughout 2020/21				Head of Finance
	Audit Management	To undertake required Audit Management activity including quality assurance and continuous improvement processes, and to review and update where necessary the Audit Charter and strategy				Head of Finance

## **Auditors will be mindful of the following when conducting general audit work:**

- Information management / GDPR
- Data Quality
- Risk management
- Governance

## **Strategic Planning** – Items for consideration 2021/22, these will be reviewed during planning for 2021/22

- Debtors Efficiency - efficiency of process for setting up and amending debtor accounts and opportunities for automation
- Maintaining service provision through management of Annual Leave (Operations Service)
- Vehicle Maintenance Workshop
- Disabled Facilities Grants / Major Housing Grants – controls over issue of grant funds
- Town Hall income – adequacy of arrangements for collection, banking and recording
- North Essex Parking Partnership (NEPP) – Review of governance and performance
- Planning Enforcement
- Health & Safety Framework – corporate monitoring and oversight arrangement, policies and guidance, risk assessments

\* Priority:

1 – These audits are key for delivery of Chief Audit Executive opinion for 2020/21 (this opinion contributes to the Council's Annual Governance Statement)

2 – These audits support the annual opinion but are lower priority for audit

3 - These items are lower priority for internal audit review, where resources do not allow completion of the full plan, audit work will focus on highest priority audits



<b>External Audit Plan 2019/20</b>		<b>Agenda No: 9</b>
<b>Portfolio</b> Finance and Performance Management <b>Corporate Outcome:</b> A high performing organisation that delivers excellent and value for money services <b>Report presented by:</b> BDO <b>Report prepared by:</b> Trevor Wilson / BDO		
<b>Background Papers:</b>		<b>Public Report</b>
BDO Audit Plan 2019/20 received 3 <sup>rd</sup> July 2020.		<b>Key Decision: No</b>
<b>Executive Summary:</b>  The External Audit Plan summarises the work that BDO LLP (External Auditors) propose to undertake in respect of the audit of Braintree District Council for the 2019/20 financial year.  The audit objectives are: <ul style="list-style-type: none"> <li>• To express an opinion on the Council's financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions;</li> <li>• To consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and the knowledge obtained during the audit;</li> <li>• To report whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;</li> <li>• To where necessary: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review; and</li> <li>• Prior to the approval of the financial statements, to discuss any significant findings with the Corporate Governance Group. Highlighting key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.</li> </ul> <p>The proposed fees chargeable for the audit and grant certification work for 2019/20 total £58,512.</p> <p>The audit fee (£46,012) is the planned Code fee as detailed in the PSAA-published scale fee, however, it is proposed that, subject to discussions with officers, this will</p>		

increase by approximately £2,500, to reflect changes in audit scope and depth linked to current audit requirements for property assets or pensions liability valuation work; as the scale fee is based on the historical position from 2012/13.

The fees may also be subject to variation should additional unplanned work be required.

### **Recommended Decision:**

To note the External Audit Plan 2019/20 together with the proposed audit fees.

### **Purpose of Decision:**

That Members are aware of the coverage of the External Audit Plan for 2019/20 and the associated costs of the external audit.

### **Any Corporate implications in relation to the following should be explained in detail.**

<b>Financial:</b>	2019/20 budget for external audit and grant certification work is £60,120.
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	None.
<b>Officer Contact:</b>	Trevor Wilson
<b>Designation:</b>	Head of Finance
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<b>E-mail:</b>	trevor.wilson@braintree.gov.uk



Report to the Corporate Governance Group

# BRAINTREE DISTRICT COUNCIL

Audit Planning Report: year ending 31 March 2020

IDEAS | PEOPLE | TRUST



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# WELCOME

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### Welcome

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### Audit scope and objectives

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We have pleasure in presenting our Audit Planning Report to the Corporate Governance Group of Braintree District Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Corporate Governance Group meeting on 23 July 2020 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspect of this plan in advance of the meeting, please contact one of the team.

Steve Bladen

For and on behalf of BDO LLP, Appointed Auditor

3 July 2020

### Steve Bladen

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This report has been prepared solely for the use of the Corporate Governance Group and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# SCOPE AND MATERIALITY

## Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Corporate Governance Group in reviewing the planned audit strategy for the Council for the year ending 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

### Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

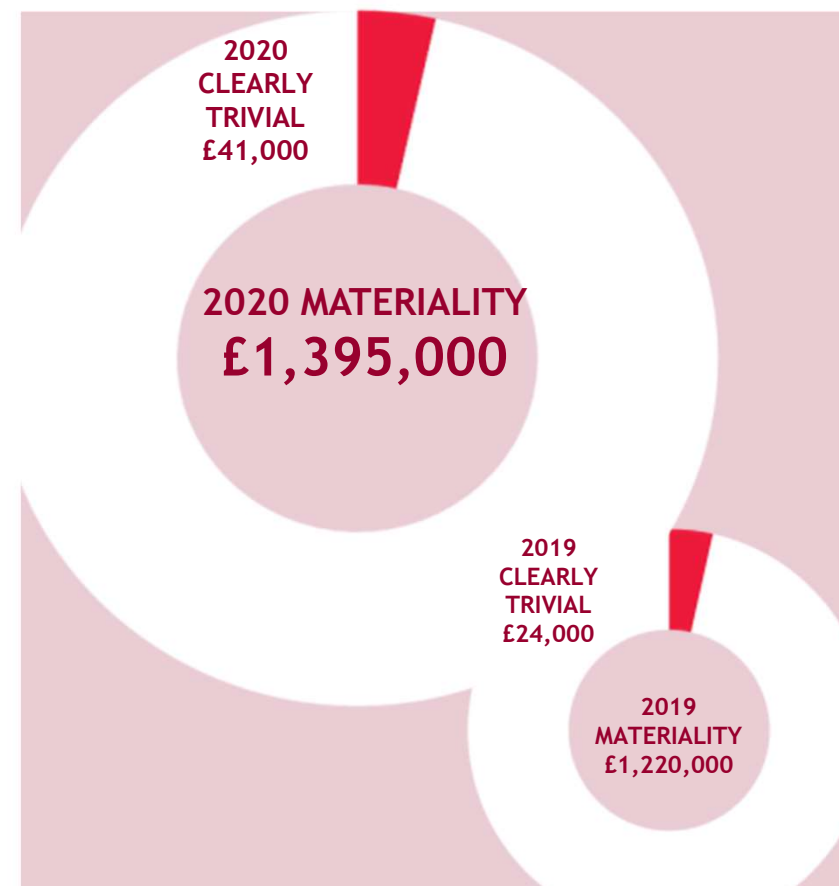
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

### Materiality

Planning materiality for the Council will be set at 2% (2018/19 1.75%) of gross expenditure for the year. Based on the prior year financial statements this has been calculated as £1.395 million. We have set our clearly trivial threshold at £41,000. We will revisit our calculation of materiality when the draft financial statements are received for audit.

We have increased the percentage at which we calculate materiality on the basis (a) 2019/20 is our second year as auditor to the Council, and as such have a greater understanding of the Council's risk profile, and (b) the low level of unadjusted error identified by our prior year audit.

Although materiality is the judgement of the engagement lead, the Corporate Governance Group is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



# AUDIT STRATEGY

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Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the Council, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Council's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.



# AUDIT RISKS OVERVIEW

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	High
Revenue and expenditure recognition	Significant	Yes	Substantive	Medium
Valuation of non-current assets	Significant	No	Substantive	High
Valuation of pension liability	Significant	No	Substantive	High

Risks identified - Use of resources	Risk rating	Testing approach
Sustainable finances	Significant	Review of Medium Term Financial Strategy and savings plans
Informed decision making	Significant	Review of governance processes





# INDEPENDENCE AND FEES

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### Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

### Fees

	2019/20	2018/19
Code audit fee	<sup>(1)</sup> £46,012	£46,012
Additional audit fee:	TBC	<sup>(2)</sup> £1,498
<b>Total audit fees</b>	<b>TBC</b>	<b>£47,510</b>
<b>Non audit fees</b>		
- Housing Benefit Subsidy certification	£12,500	£10,000
- Housing Benefit Subsidy additional fee		<sup>(3)</sup> £1,800
<b>Total non-audit services fees</b>	<b>£12,500</b>	<b>£11,800</b>
<b>Total fees</b>	<b>TBC</b>	<b>£59,310</b>

### Fee variances

- (1) The 2019/20 planned Code fee is the PSAA-published scale fee. The scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property assets or pensions liability valuation work. The scale also does not reflect the additional use of resources risk relating to sustainable finances and informed decision making, which we estimate will increase fees by approximately £2,500. Discussions on the total fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases.
- (2) We agreed an additional fee with the council as a result of the work required in relation to the McCloud pensions adjustment.
- (3) We agreed an additional fee with the Council as a greater number of errors were identified when compared against the assumptions included within our engagement letter.

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# OVERVIEW

## Audit scope and objectives

Key components of our audit objectives and strategy for the Council are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council’s financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of Resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Corporate Governance Group	Prior to the approval of the financial statements, we will discuss our significant findings with the Corporate Governance Group. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

# BDO TEAM

## Team responsibilities

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### Steve Bladen

#### Director

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the National Audit Office.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.

### Francesca Palmer

#### Manager

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I will lead on the audit of the Council. I work closely with Steve to develop and execute the audit strategy. I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Corporate Governance Group are highlighted on a timely basis.

# OVERVIEW

## Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Key: **Significant** / **Normal**

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Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
2. Revenue and expenditure recognition			Auditing standards presume that income recognition presents a fraud risk. For the Council we consider that this significant risks manifests itself in the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue, and in the cut-off of expenditure.
3. Valuation of non-current assets			The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
4. Valuation of pension liability			The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
5. Sustainable Finances - Budget setting			The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. The Council will need to deliver significant savings targets to maintain its financial stability in the medium term; there is a significant risk that those savings will not be delivered.
6. Sustainable Finances and Informed Decision Making - Commercialisation Agenda			The Council are currently working on a small number of schemes that are significant in terms of its strategic, operational and financial priorities. Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.

# MANAGEMENT OVERRIDE OF CONTROLS

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**Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.**

**Significant risk**

**Normal risk**

**Fraud risk**

**Assess design & implementation of controls to mitigate**

**Significant Management estimates & judgements**

**Controls testing approach**

**Substantive testing approach**

**Risk highlighted by Council**

## Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Planned audit approach

To address this risk we will:

- Review and verify journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Evaluate any significant transactions that appear to be outside the normal course of business, or that otherwise appear unusual; and
- Review unadjusted audit differences for indications of bias or deliberate misstatement.

In considering how the risk of management override may present itself, we consider the inappropriate capitalisation of revenue expenditure to be a key risk. To address this risk we will:

- Test an increased sample of additions to non-current assets and investment property to confirm that expenditure has been classified correctly.



# REVENUE AND EXPENDITURE RECOGNITION

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**Auditing standards presume that income recognition presents a fraud risk.**

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

## Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider there to be a significant risk in respect of the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to the cut-off of expenditure, where our testing will be focussed.

## Planned audit approach

Our audit procedures will include the following:

- Testing an increased sample of grants included in income to documentation from grant paying bodies and checking whether recognition criteria have been met; and
- Testing a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been; and

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**The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.**

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

## Risk detail

Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. At 31 March 2019, the Council held other land and buildings of £85 million, and investment property of £36 million.

Valuations of property assets can be complex, and the estimates and judgments made by management are likely to have a significant impact on the value of those assets. We therefore consider there is a significant risk over the valuation of these assets.

## Planned audit approach

Our audit procedures will include the following:

- Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirming that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Following up valuation movements that appear unusual; and
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

# VALUATION OF PENSION LIABILITY

**The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty**

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

## Risk detail

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The Council's pension fund deficit at 31 March 2019 was £60 million.

The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise, updated at 31 March 2020 for factors such as mortality rates and expected pay rises.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

## Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary;
- Reviewing the competence of the management expert (actuary);
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewing the controls in place for providing accurate membership data to the actuary;
- Contacting the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data;
- Checking the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the Local Government Pension Scheme, and that any significant changes in membership data since the triennial submission have been communicated to the actuary; and
- Review the steps taken by the Council to assess the impact of the recent volatility in global stock markets on the Council's pension fund liability.

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# SUSTAINABLE FINANCES (USE OF RESOURCES)

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**The Council will need to deliver significant savings targets to maintain financial stability in the medium term; there is a risk that those savings will not be delivered.**

Significant risk	
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	
Risk highlighted by Council	

## Risk detail

The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. The Council's latest Medium Term Financial Strategy identifies a savings gap of £1.4 million over the period 2020/21 - 2023/24.

Delivering the necessary savings to deliver a balanced budget will be challenging, and is likely to require difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council.

## Planned audit approach

Our audit procedures will include the following:

- Review the Council's decision making process in relation to the approval of its budget and Medium Term Financial Strategy, in particular the quality of the information provided to Members.
- Review the assumptions within the Council's Medium Term Financial Plan, including the reasonableness of the cost pressures and income assumptions.
- Test a sample of the savings schemes to assess the level of delivery/benefit realisation, and the assumptions made in respect of subsequent years where those schemes deliver recurrent savings.

# INFORMED DECISION MAKING (USE OF RESOURCES)

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**Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.**

Significant risk	
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	
Risk highlighted by Council	

## Risk detail

The Council are currently working on a small number of schemes that are significant in terms of its strategic, operational and financial priorities. Both schemes present significant financial and reputational risks to the Council.

- **Town Centre Regeneration.** In September 2019, the Council approved plans to regenerate the Manor Road area of Braintree town centre. The project will see the construction of 35 new homes, a hotel, retail facilities, improved public transport and health facilities, and the creation of over 100 new jobs. Site preparation work commenced in January 2020, with main construction work scheduled to complete in 2021. The cost of the project is estimated at £33 million.
- **Horizon 120.** In December 2018, the Council acquired Horizon 120, a 65 acre area of employment land in Great Notely. The Council is currently working with third parties on proposals to develop the site; this is likely to include the sale of part of the site.

## Planned audit approach

Our audit procedures will include the following:

- The quality of the Council's decision making process, in particular the quality of the budgetary and other information provided to Members when taking decisions in relation to the projects;
- The extent to which the Council has sought and considered relevant technical, legal and independent professional advice to inform any decisions it made in considering the business case for these projects;
- The extent to which the Council has identified, considered and mitigated the risks around these projects, including those arising from the COVID-19 pandemic;
- The extent to which the Council has modelled the financial implications of these projects through its medium term financial plan;
- Where applicable, the extent to which the Council considered alternative funding options; and
- The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs.

# OTHER MATTERS REQUIRING FURTHER DISCUSSION

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## Fraud

Whilst officers of the Council have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Council. We request confirmation from the Corporate Governance Group on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We will review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes.

## Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

## Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

## Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

## Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for Management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Corporate Governance Group.

## Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

# GOING CONCERN

**Officers are required to make an assessment of the Council's ability to continue as a going concern.**

## Officers' responsibilities

It is officers' responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of members' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

## Audit responsibilities

Our responsibilities in respect of going concern are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Council's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

- a) Officers' method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other.
- b) Officers' plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances.
- c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

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IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting, to include:

- Cedar E Financials
- Civica
- iTrent
- CIPFA Asset Management
- Uniform Idox and
- Pay.net.



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# INDEPENDENCE

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2020.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

**Non-audit services**

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out in the fees table on page 7.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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# COUNCIL'S RESPONSIBILITIES

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### Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

### Use of resources

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



# OUR RESPONSIBILITIES

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### Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

### Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and the Corporate Governance Group and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# COMMUNICATION WITH YOU

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## Those charged with governance

References in this report to ‘those charged with governance’ are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Corporate Governance Group.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

## Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

## Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

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# TEAM MEMBER ROTATION

This table indicates the latest rotation periods normally permitted under the independence rules within PSAA’s Terms of Appointment,

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

## Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
Steve Bladen Engagement lead	1	5 years
Francesca Palmer Manager	2	7 years

# MATERIALITY: DEFINITION AND APPLICATION

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## Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern; and
- Instances when greater precision is required (e.g. Remuneration and Staff Report and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the entity, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

## Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Corporate Governance Group confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

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**BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.**

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



# AQR RESULTS 2018/19

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## Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the [FRC Website](#). We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

## Firm's results

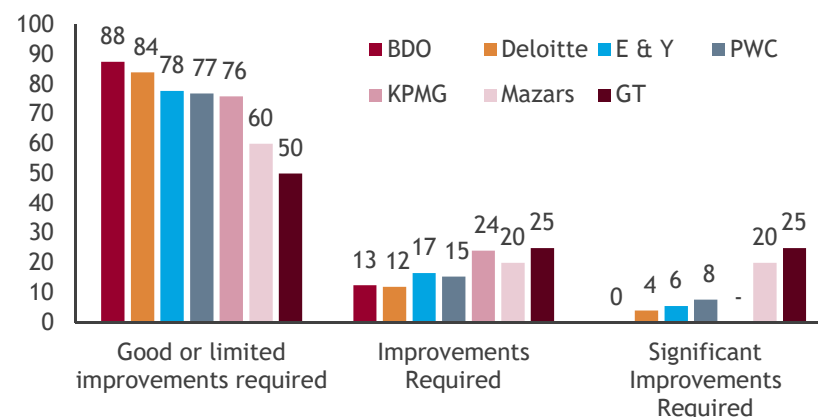
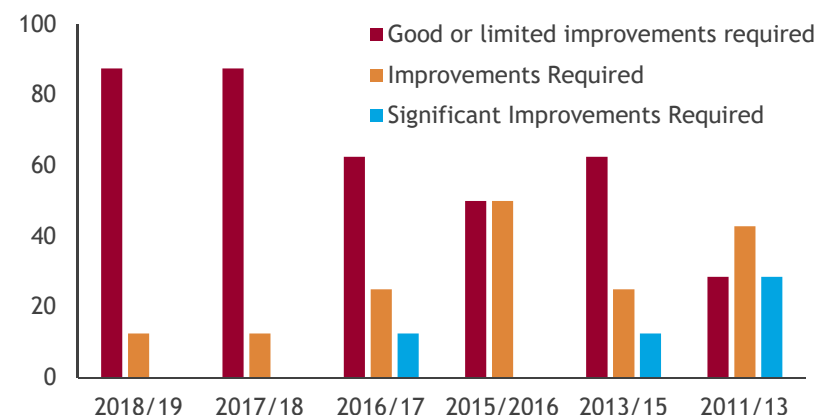
The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

We include details of our model 'The Cycle of Continuous Improvement'. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

More details will be included in our Transparency Report which will be available on our [www.bdo.co.uk](http://www.bdo.co.uk).



# AQR RESULTS 2018/19

## BDO performance

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Live files require:

- Review of audit quality by senior team members
- and may require:
- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:

- Internal Audit Quality Assurance Review
- External review from AQR or QAD

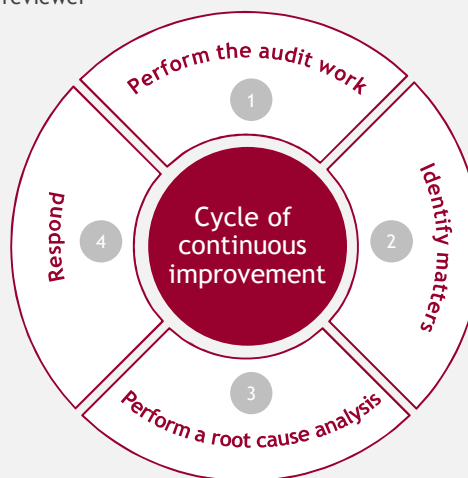
Considerations of how to address:

- Behavioural matters
- Operational changes required
- Cultural matters to be escalated

Responses may include:

- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- Amending audit approach firm-wide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- Updated guidance material

Responses inform training plans



Nature of matters may be:

- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- “Best practice” examples

May be at Individual assignment or ‘whole-firm’ level:

- Identification and assessment of root cause
- Productive process to learn from matters and improve quality
- “Best practice” examples treated in the same way as “issues”
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate



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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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<b>Strategic Risk Management</b>		<b>Agenda No: 10</b>
<b>Corporate Priority:</b> Delivering excellent customer service <b>Portfolio Area:</b> Corporate Services and Asset Management <b>Report presented by:</b> Trevor Wilson, Head of Finance <b>Report prepared by:</b> Trevor Wilson, Head of Finance		
<b>Background Papers:</b>		<b>Public Report</b>
Risk Policy, Strategy and Implementation Plan – Council 19 <sup>th</sup> April 2006.		<b>Key Decision: No</b>
<b>Executive Summary:</b>  <p>The report provides detail of the review and updating of the Council's Strategic Risk Register for the Council as agreed by the Cabinet at its meeting on 10<sup>th</sup> February 2020.</p> <p>The Strategic Risk Register agreed by the Cabinet on 26<sup>th</sup> November 2018 was reviewed by Members at the Member Development Evening on 21<sup>st</sup> November 2019; the outcome is the updated Register considered and approved by Cabinet.</p> <p>The register details the risks which have potential to impact on the delivery of the Corporate Strategy over the medium-term. In addition to undertaking this review of the register, the Management Board ensures that the Register continues to be current by regularly reviewing and updating the strategic risks, as necessary.</p> <p>The Strategic Risk Register forms one part of the Council's overall approach to risk management, other facets include:</p> <ul style="list-style-type: none"> <li>• Processes for identifying and recording operational risks;</li> <li>• Risk registers for major projects;</li> <li>• Business continuity planning, and;</li> <li>• Emergency planning.</li> </ul> <p>Members at the Development Evening proposed that the number of strategic risks identified be increased to eleven; with the inclusion of a 'Climate Change' risk which was assessed as having a risk rating of C2 (Significant likelihood/ Critical impact). Whilst previously included on the Strategic Risk Register until 2014 this risk had most recently been included within the Operational Risks of service areas, as appropriate.</p>		

The existing ten Strategic Risks were reviewed with amendments to the narrative of some recommended and following consideration of the risk rating for each the consensus was that these should remain at the previous levels.

The updated Register is attached at Appendix B.

The number of risks above the Risk Tolerance Line (See Appendix A) and therefore requiring active management is nine.

A summary of the risk ratings made at the reviews are shown in the table below:

<b>Risk Rating</b>	<b>October 2018</b>	<b>November 2019</b>
<b>B2</b> ( <i>High likelihood/ Critical impact</i> )	2	2
<b>C2</b> ( <i>Significant likelihood/ Critical impact</i> )	6	7
<b>D1</b> ( <i>Low likelihood/ Catastrophic impact</i> )	1	1
<b>D2</b> ( <i>Low likelihood/ Critical impact</i> )	1	1
<b>Total number of risks on Strategic Register</b>	10	11

Management Action Plans for managing each of the eight risks above the risk tolerance line are owned and maintained by a Corporate Director. Details of the risks together with the Management Action Plans are provided at Appendix B.

An update of the Strategic Risk Register is scheduled to be considered by Cabinet at its meeting on 7<sup>th</sup> September 2020.

#### **Decision:**

Members are asked to note and endorse the Strategic Risk Register and the Action Plans for managing the high rated risks.

#### **Purpose of Decision:**

For Members of the Corporate Governance Group to be assured that the Council's strategic and operational risks, with a high risk rating, are being actively managed.

Any Corporate implications in relation to the following should be explained in detail	
<b>Financial:</b>	Risks and associated Management Action Plans concerning the Council's finances are highlighted in risks 1 (Medium-Term Financial Strategy), 7 (Return on Investments) and 10 (Strategic Investment).
<b>Legal:</b>	There are no specific risks of a legal nature at this time.
<b>Safeguarding</b>	There are no specific risks regarding safeguarding at this time.
<b>Equalities/Diversity</b>	The Council's processes and approach to equalities and diversity are well developed and are not regarded as a risk.
<b>Customer Impact:</b>	The potential impact on a proportion of residents in the district, in particular vulnerable groups, of the Government's Welfare Reforms is identified under risk 4 (Community Resilience). A Management Action Plan is included detailing the actions taken and planned to reduce the risk.
<b>Environment and Climate Change:</b>	Climate Change (risk 11) is proposed as a new strategic risk with Members attending the Development Evening suggesting a risk rating of C2.
<b>Consultation/Community Engagement:</b>	No specific risk identified concerning consultation and community engagement however these are important elements in a number of the strategic risks on the register e.g. Local Plan and Community Resilience.
<b>Risks:</b>	A robust Risk Management process is an important element of the Council's governance arrangements.
<b>Officer Contact:</b>	Trevor Wilson
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## STRATEGIC RISK PROFILE

Braintree District Council – Reviewed at Members Development evening 21<sup>st</sup> November 2019)

LIKELIHOOD ↑	A				
	B			1,3	
	C			2,4,5,6,9,10, 11	
	D			7	8
	E				
	F				
		IV	III	II	I
		IMPACT →			

## APPENDIX A

KEY:

Likelihood:

A – Very High  
B – High  
C – Significant  
D – Low  
E – Very Low  
F – Almost impossible

Impact:

I – Catastrophic  
II – Critical  
III – Marginal  
IV – Negligible

**Medium-Term Financial Strategy – 1**

Risk Rating B2 (B2 October 2018)

Management Board Owner – Corporate Director (CF)

Vulnerability	Trigger	Consequence
<p>The current financial year is the final year of the Government's four-year settlement (2016/17 to 2019/20) for Local Government.</p> <p>Fundamental change to Local Government funding was planned for 2020/21 with the Government proposing to introduce 75% Business Rates Retention and implement the outcomes of the Fair Funding Review and the 2019 Spending Review.</p> <p>This change has been delayed until 2021/22 with the provisional Funding Settlement for 2020/21 being for a single year and based on rolling forward the 2019/20 settlement, and was received on 20<sup>th</sup> December.</p> <p>The Government had previously announced that the New Homes Bonus (NHB) scheme was to be reviewed for 2020/21. This has also been postponed for one year and the allocation for 2020/21 is for one-year only with no legacy payment for the following three years. Whilst the Council does not use NHB to support day to day revenue expenditure this does mean less money for investment in infrastructure and affordable homes across the District.</p> <p>There is also uncertainty over the impact of the UK leaving the European Union on Local Government finances.</p>	<p>The Council's financial plans are adversely impacted by:</p> <ul style="list-style-type: none"> <li>• Circumstances change which render the planned cost reductions/additional income unachievable</li> <li>• Other financial assumptions prove incorrect. Including significant income budgets not being achieved e.g. interest receivable on the investments in equity, multi-asset and property funds.</li> <li>• Other organisations which provide significant contributions to the Council face their own funding pressures and may require greater reductions than expected.</li> <li>• Economic conditions and market fluctuations cause changes at or before contract renewal.</li> <li>• Capital receipts not received as planned and capital resources insufficient to finance capital programme.</li> <li>• Business rates collected less than expected due to successful appeals being greater than the provision made.</li> <li>• Business Rates baseline reset for 2021/22, as determined by the Fair Funding Review, does not enable the Council to retain business rates growth achieved prior to reset (estimate of £1.515m in 2020/21).</li> <li>• Future Spending Reviews and Autumn Statement(s) require further savings from local government.</li> </ul>	<ul style="list-style-type: none"> <li>• Shortfall in resources both in year and following years.</li> <li>• Financial savings are not achieved; balances used more than planned.</li> <li>• Priorities and projects are not delivered.</li> <li>• Cuts necessary to services</li> <li>• Rushed decisions to find other savings</li> <li>• Staff unsettled and de-motivated.</li> <li>• Assets not fit for purpose</li> <li>• Satisfaction levels with the Council fall</li> <li>• Section 114 notice issued by the Corporate Director (Finance) that it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.</li> </ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>Robust budget review and setting process involving Management Board and Cabinet Members developed over a number of years</p> <p>Unallocated balance significantly exceeds minimum level of £1.5m - estimated £7.4m as at 31<sup>st</sup> March 2020.</p> <p>Earmarked reserves to meet potential fluctuations: Estimated Business Rate Retention reserve (£1.45m) and Treasury Management (£0.99m).</p> <p>Regular Budgetary Control and monitoring processes.</p> <p>Council policy to use New Homes Bonus to fund infrastructure project delivery and affordable homes.</p> <p>Utilised borrowed monies, of £6m, to fund investments (e.g. commercial property and solar panels) to achieve improved rate of return over the medium-term.</p> <p>Monitoring of investment counter-parties and returns on investments by Arlingclose, Treasury Advisors.</p>	<p>Delivery against the workstreams contained in the Roadmap 2020.</p> <p>Monitor financial viability of key contract partners and commercial property tenants.</p> <p>Participate in consultation as proposals for the new 75% Business Rates Retention scheme and the Fair Funding Review are published.</p> <p>Monitor the disposal of assets against planned timescale for receipt of sale proceeds.</p> <p>Continue work on development of financial resilience indicators.</p>	Corporate Director (CF)	<p>Cost reductions and increased income delivered on time and as budgeted.</p> <p>Setting a balanced base budget and having plans to meet funding shortfalls in subsequent years of MTFS.</p> <p>Service and performance levels delivered as planned.</p> <p>Collection rates of council tax and business rates achieve targets.</p> <p>Budget variations reported in timely manner with explanation and action plan, as appropriate.</p>	Monthly	Feb. 2020 – Full Council sets council tax and budgets for 2020/21	<p>Budget and MTFS proposals provide a balanced base budget for 2020/21 including a 2.75% increase in council tax to £184.68 (Band D).</p> <p>For planning purposes council tax increases in future years are at the core referendum threshold of 2% for 2021/22 onwards.</p> <p>Planned approach to addressing the estimated shortfalls in 2021/22 to 2023/24.</p> <p>Member Strategic Investment Group established to consider all proposed investments.</p> <p>Investment Evaluation Tool used to assess all investment opportunities.</p> <p>External Auditors, BDO LLP, reported in their 2018/19 Annual Audit Letter that they did not identify any significant issues and concluded that the Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term.</p>

## Economic Development – 2

Risk rating C2 (C2 October 2018)

Management Board Owner – Corporate Director (CR)

Vulnerability	Trigger	Consequence
<p>The Council has identified Economic Growth as a key Corporate priority for the District as set out in the Corporate Strategy.</p> <p>The Plan for Growth was agreed by Cabinet and includes both a 5 year and rolling 1 year action plan of key priorities. These include infrastructure, business support and skills development projects.</p> <p>Most of the priorities in the action plan require work with partners who may or may not have the same level of commitment to a project as BDC</p> <p>Funding from other partners or government may not be available to support the action plan priorities</p> <p>Brexit and other macroeconomic uncertainties may cause businesses in the District to make different investment decisions which may not be to the benefit of the District.</p>	<p>Lack of investment in infrastructure prevents business growth and job creation.</p> <p>Shortage of required skills to meet the need of businesses in the District</p> <p>Businesses are not provided with the support necessary to maximise opportunities for growth and development</p> <p>Amount of business rates collected reduced</p>	<ul style="list-style-type: none"><li>• Reduction in jobs</li><li>• Fewer new businesses being created</li><li>• Jobs left unfilled due to lack of skilled employees</li><li>• Disinvestment by existing businesses</li><li>• Less investment in infrastructure</li><li>• Businesses feel disengaged and cannot access support networks</li><li>• Falling productivity rates in the District</li><li>• Falling Gross Value Added (GVA) in the District</li><li>• Loss of revenue / growth in business rates</li></ul>



Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>Strong working relationship with stakeholders, education providers and partner local authorities on major projects, key priorities and strategies.</p> <p>District Plan for Growth being implemented, setting clear economic priorities over 1 year and 5 year periods.</p> <p>Braintree Education and Skills board has been established and is progressing projects</p> <p>Braintree Town Centre Partnership has been established and an independent chair appointed</p> <p>Tourism Plan approved and a Tourism Partnership has been established.</p> <p>Investment in key priorities to secure match funding e.g. Millennium Way Slips project</p> <p>Strategic Business Engagement Strategy approved by members and is being implemented.</p> <p>Stronger engagement with local businesses.</p>	<p>Continuing to develop our relationship with key stakeholders to ensure shared goals and priorities are met</p> <p>Marketing and promotion of BDC/Partner business support services.</p> <p>Effective implementation of skills projects agreed by the Education and Skills Board</p> <p>Continue to provide appropriate levels of support to the Town Centre Partnership and other business led groups.</p> <p>Continue to source local and national funding sources which could provide grants for key projects</p> <p>Continuous review of business engagement programme to ensure it is meeting the requirements of businesses.</p>	Corporate Director (CR)	<p>Creation of new jobs</p> <p>New Business start-ups</p> <p>Business growth in the District</p> <p>Inward Investment in the District</p> <p>Investment into District infrastructure</p> <p>Unemployment rate</p> <p>Business funding opportunities explored</p> <p>Empty commercial premises</p> <p>Readership of the Business Bulletin and other social media posts.</p> <p>Number of Apprenticeships</p>	Quarterly		<p>The North Essex Economic Strategy has been drafted in partnership with neighbouring authorities.</p> <p>Education and skills board has high levels of attendance from schools colleges and employers and has approved funding for several projects which are currently being progressed to aid skills development in the District</p> <p>Braintree Town Centre Partnership continues to be supported and develop.</p> <p>Funding for infrastructure has been secured from ECC and Highways England and funding for skills projects has been secured through ECC.</p> <p>Young Entrepreneurs Programme has been launched.</p> <p>District Tourism website is under development.</p> <p>A continuous programme of business visits undertaken including by senior officers and members.</p>

### Planning and Garden Communities – 3

Risk Ratings: B2 (B2 October 2018)

Management Board Owner – Corporate Director (JL)

Vulnerability	Trigger	Consequence
<p>Braintree District Council has an adopted Core Strategy and has prepared a new Local Plan which was submitted in October 2017 and remains under examination. However up to the date of adoption the Local Plan only provides limited weight in decision making.</p> <p>Government policy on housing need has changed since the last Local Plan was adopted and the Council is now in a position where it must deliver a substantially higher number of homes. There is a requirement on the Council to show a deliverable 5 year supply of housing land at this new higher target and to pass a new Housing Delivery Test.</p> <p>Part of the Local Plan is a proposal to deliver three new cross boundary Garden Communities to deliver on the long term growth needs of the area. The Councils have also set up a company called North Essex Garden Communities (NEGC) Ltd which could be used in the delivery of the Garden Communities if they are approved as part of the Local Plan process</p>	<p>Local Plan being found unsound by the Planning Inspector.</p> <p>Government changes to national policies, guidance or methodologies which have implications for Plan or decision making.</p> <p>Land owners submitting speculative planning applications.</p> <p>Planning Inspectors concluding that the local authority does not have a 5 year housing supply.</p> <p>Failure of the Council to pass the Housing Delivery Test when results are published each November.</p> <p>The Partnership broken by one or more local authority partners.</p> <p>NEGC Ltd is no longer necessary/needed.</p> <p>A large number of decisions would be needed in a relatively short period of time to take forward plans.</p>	<ul style="list-style-type: none"> <li>• Further delays to the Local Plan process if further changes or evidence are required.</li> <li>• Council may need to produce a new Local Plan</li> <li>• Council may have to approve planning applications on sites outside of those proposed resulting in development which conflicts with the agreed spatial strategy</li> <li>• Infrastructure requirements of new developments may not be sufficiently met.</li> <li>• Loss of appeals on planning applications for development on unallocated sites outside of development boundaries.</li> <li>• A presumption in favour of sustainable development may need to be implemented if the Council failed the Housing Delivery Test.</li> <li>• NEGC Ltd may need to be wound up</li> <li>• NEGC Ltd may need additional resources and funding</li> </ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>The provision of further evidence to the Planning Inspector on the Local Plan in order to progress the examination.</p> <p>Programme of detailed reporting and decision making through Local Plan Sub-Committee and Full Council.</p> <p>Strong communications Plan with all information published on the website and communicated to residents and stakeholders through social media, traditional media and leaflets delivered directly to all households at key points.</p> <p>Strong working relationship with major developers on key housing/commercial sites in the District.</p> <p>Good working relationships with key stakeholders in the District.</p>	<p>Project Plan for the Local Plan continually kept under review and updated as required.</p> <p>Matters for information and decision continue to be reported to the relevant committee or Full Council.</p> <p>Continued communication bullets on the next steps of the Plan process.</p> <p>Continue to hold regular meetings with developers, partners and key stakeholders.</p> <p>Internal resources kept under review to ensure they are fit for purpose.</p> <p>Directors of NEGC Ltd to continue to check, challenge and manage the NEGC Ltd work through the Board including the approval of business and budget planning.</p>	Corporate Director	<p>Local Plan adoption</p> <p>Outcome of appeal decisions relating to non-allocated sites.</p> <p>Outcome of the Housing Delivery Test</p> <p>Delivery of NEGC Ltd against agreed Business Plan targets</p>	Quarterly	January 2020	<p>The Planning Inspector has provided an indicative timetable for the next steps of the Local Plan examination.</p> <p>Press release issued at key points in the process including the recent announcement on Local Plan examination timetable.</p> <p>Regular meetings in the diary with partner authorities and NEGC Ltd at both operational and senior leadership level.</p> <p>Three additional staff have been recruited within Development Management and temporary staff are covering other vacant roles.</p> <p>NEGC Business Plan for 2019/20 has been approved by both the Board and full Council.</p>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>A Planning Appeal Cost reserve fund to ensure the Council has sufficient funds to defend the reasons for refusal on planning applications which have been turned down.</p> <p>Additional staff agreed in Development Management to deal with the increase in the number, scale and complexity of planning applications.</p> <p>Extensive formal and informal governance and working relationships in place with North Essex Garden Communities Ltd, Colchester BC, Tendring DC and Essex County Councils re NEGC Ltd.</p> <p>Excellent working relations with Uttlesford District Council regarding the West of Braintree Garden Community.</p> <p>Oversight of NEGC Ltd led through a formal Board with representatives from the four local authorities</p>						

## Community Resilience – 4

Risk Rating C2 (C2 October 2018)

Management Board Owners – Corporate Directors (CF) and (CR)

Vulnerability	Trigger	Consequence
<p>Universal Credit (Full service) is operational for new claims from working age claimants in the Braintree District. Legacy claims of housing benefit (for working age claimants) will be transferred to Universal Credit by 2023.</p> <p>Further changes in the Housing Related Support funding by Essex County Council anticipated in 2020/21 which may mean a decrease in the number of supported housing schemes/bed spaces in the district for homeless households.</p> <p>The Homelessness Reduction Act 2017(HRA) came into force in April 2018, it means the Council needs to assist more people, at an earlier stage if they are facing homelessness. Staff now work more intensively and for longer with people to help prevent and relieve their homelessness. The team has been restructured and new staffing appointments made across the Housing Team. Funding resources are in place but may not be sufficient in the longer term. Partnership working with other agencies is key to help tackle the sometimes complex reasons why people become homeless.</p> <p>Local Housing Allowance (LHA) rates have not increased since 2016 making it more difficult for those households on benefits or low income to find homes in the private rented sector.</p> <p>There are a number of deprived areas in the district with children in poverty, health inequalities, lack of skills and higher unemployment.</p> <p>Educational attainment at some schools in the District has been relatively poor but is improving and as a whole the attainment is around the Essex average.</p>	<p>Demand for services from the Council and other public sector organisations increases which exceed our capacity to meet.</p> <p>Essex County Council implements further reductions and contract changes.</p> <p>Funding from the government to support the new homelessness duties reduces/ceases.</p>	<ul style="list-style-type: none"> <li>• Potential increase in people seeking the Council's assistance with their housing problems. Increased demand for temporary accommodation.</li> <li>• Increased demands on the Council's Housing and Customer Services.</li> <li>• Increased health inequalities.</li> <li>• Increase in number of households in fuel poverty</li> <li>• Increase in number of children in poverty.</li> <li>• Requests for Discretionary Housing Payments and/or Exceptional Hardship Fund payments exceed resources allocated.</li> <li>• Housing projects at risk of closure and/or change of access arrangements, which may mean additional temporary housing needs to be sourced.</li> <li>• Reductions and changes to supported housing and floating support may impact on other public services, eg health and police.</li> </ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>Work with Citizens Advice; Greenfields CH; Dept. for Work and Pensions to assist those affected by the welfare changes.</p> <p>Discretionary Housing Payments - Govt. funding of £236,373 for 2019/20. Short-term assistance available to tenants facing difficulty with their rent.</p> <p>Exceptional Hardship Fund of £14,200 for 2019/20. Short-term support available to council tax support claimants.</p> <p>Homelessness and Rough Sleeping Strategy - 2018 to 2023</p> <p>Supporting residents to be healthy and live well working with a range of partners through the;- Livewell Boards and the Health and Wellbeing Panel</p>	<p>Welfare Reforms – Continue regular meetings with partner organisations, including working jointly with Job Centre Plus</p> <p>Regular reviews of the impact the changes are having on those affected by reforms.</p> <p>Housing issues – Continued dialogue with Essex CC and housing providers.</p> <p>Exploring alternative funding arrangements to seek to sustain housing projects.</p> <p>Continue to review and implement actions in the Homelessness Strategy. This includes working with a wide range of partners:</p> <ul style="list-style-type: none"> <li>• The Braintree District Homelessness Prevention Partnership</li> <li>• Essex Prevents Homelessness – This work programme is sponsored by Essex Chief Executives. Work with our Essex partners to develop new ways or working to prevent homelessness.</li> </ul>	Corporate Director	<p>Services able to meet the increased demand for services.</p> <p>Funding sufficient to support those residents in extreme financial difficulties with council tax and/or rent.</p> <p>Increased number of residents in employment.</p> <p>That a level of supported housing is retained in the district with continued nominations rights available to this Council.</p> <p>Homelessness Reduction Act 2017 – maintaining or increasing the number of applicants whose homelessness is prevented or relieved.</p>	Quarterly		<p>Grant agreements to 31.3.2020 with;- The Citizens Advice for the core service and money advice service</p> <p>Community360 to help support the voluntary sector.</p> <p>The Braintree District Dementia Alliance continues to support people and families living with dementia</p> <p>Initiatives aimed at connecting people and helping to prevent loneliness, for example Meet up Monday.</p> <p>New Government grants and BDC funding to meet the new homelessness duties.</p> <p>Community grants;- BDC's Councillors' Community Grant Fund and The Braintree District and Greenfields Community Fund.</p>

## Service and Project Delivery – 5

Risk Rating C2 (C2 October 2018)

Management Board Owner – Corporate Director (CF)

Vulnerability	Trigger	Consequence
<p>Reduced resources impact on the Council's ability to deliver good quality services. Service delivery and resilience requires a well-managed and motivated workforce with the capacity and capability to deliver. With an aging workforce the Council has recognised the important challenges around workforce planning and talent management for the future.</p> <p>Health &amp; Safety - Breach in processes/ procedures leading to a health and safety or security incident (including an act of terrorism).</p> <p>Service delivery is heavily reliant on the availability of systems.</p> <p>The Council has approved a number of significant projects. It is essential that there is the capability and capacity available to deliver.</p>	<p>Key people leave or are unavailable for work (small teams or specialist areas are most vulnerable).</p> <p>Competitive recruitment markets particularly in relation to the growth agenda.</p> <p>Major incident.</p> <p>Computerised systems unavailable for use for a prolonged period.</p>	<ul style="list-style-type: none"><li>• The organisation is stretched too far and resulting in service delivery failure</li><li>• Mistakes made and corners cut</li><li>• Customer satisfaction falls</li><li>• Employees are disengaged and demotivated.</li><li>• Loss of good people.</li><li>• Increased key person dependency</li><li>• Loss of corporate memory</li><li>• Failure to deliver Council's priorities and Annual Plan</li><li>• Remaining staff fail to cope</li><li>• Change programmes difficult to implement</li><li>• Actual or potential injury or loss of life.</li><li>• Financial loss / impact on value of assets;</li><li>• Reputational damage</li><li>• Data loss</li></ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>People Strategy and Workforce development plans.</p> <p>Workforce planning and succession planning included in Business Plans.</p> <p>Staff support arrangements include:</p> <ul style="list-style-type: none"> <li>• Employee Wellbeing Strategy</li> <li>• Mental Health &amp; Work related stress policy</li> <li>• Free and confidential Employee counselling service</li> <li>• Free and confidential employee assistance helpline</li> </ul> <p>Security policies – regularly reviewed and updated.</p> <p>Training/education in cyber security for users.</p> <p>Training programme for managers</p> <p>Disaster recovery plan: Emergency generator; Independent resilient network; Alternative accommodation identified – Town Hall.</p> <p>Business continuity exercise for senior managers held annually.</p> <p>Regular server and workstation upgrades to ensure latest software versions are in use (reduces vulnerability to malware and viruses).</p>	<p>Ensure that there is effective management and change control of all systems to minimise disruptions.</p> <p>Individual disaster recovery arrangements in place for all systems.</p> <p>Review endpoint access to items such as USB memory sticks, CDs, DVDs.</p>	Corporate Director (CF)	<p>Computer unavailability is minimised</p> <p>Uninterrupted service delivery</p> <p>No long-term vacancies</p>	Quarterly	Business Plans produced December /January	<p>Funding for the Strategic Investment Team agreed for a four-year period.</p> <p>Additional staffing resources agreed for Planning and Housing services.</p>



## Affordable Housing and Homelessness – 6

Risk rating C2 (C2 October 2018)

Management Board Owner – Corporate Director (JL)

Vulnerability	Trigger	Consequence
<p>As the market has improved and Greenfields has developed many of the sites in its ownership, we are increasingly reliant on market delivery of new homes to facilitate affordable housing provision. In the short-term (3 years or so) delivery of new affordable housing is likely to be good but a downturn in the market could present a serious challenge.</p> <p>The current national political climate is more supportive of rented affordable housing than it has been for several years but we are still challenged continually by developers seeking to:</p> <ul style="list-style-type: none"> <li>• minimise the affordable housing provision;</li> <li>• reduce the size of units;</li> <li>• provide higher proportions of shared ownership or other tenures.</li> </ul> <p>The impact of homelessness is being managed locally but relies on continuing funding of support services by Essex County Council. Compared to many other Essex LAs, we have good local provision, so any review of resources is likely to take resources away from the District.</p> <p>In addition, other LAs and in particular London Boroughs, are increasingly looking to place people out of London. Many London Boroughs are actively pursuing opportunities such as office conversions to make nominations outside of their area.</p>	<p>Market downturn</p> <p>Government intervenes to require higher proportions of starter homes or other reduced-cost tenures.</p> <p>Developers push back on the number of affordable homes required on developments.</p> <p>Cost of housing (labour and materials) rises making them unaffordable</p>	<ul style="list-style-type: none"> <li>• Affordable housing need not met</li> <li>• Homeless households remain longer in temporary accommodation as fewer rented homes become available for letting through 'Gateway to Homechoice' choice based lettings scheme.</li> <li>• Cost to the Council of providing temporary accommodation increases</li> <li>• Young people/key workers leave the district</li> <li>• Some housing associations withdraw from higher-risk accommodation, such as supported housing schemes</li> <li>• Inability to find suitable affordable accommodation for larger families</li> <li>• Unable to provide supported housing in particular for under 35's, who will not receive enough benefit to cover the rent for self-contained accommodation.</li> </ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>New Housing Strategy adopted in 2016/17</p> <p>New Homelessness Strategy adopted in 2018/19</p> <p>Up-to-date viability assessment and updated 'toolkit' to undertake individual assessments.</p> <p>Work with a range of housing associations to ensure that we can meet the varied needs of local residents and make sure we do not miss out on affordable housing opportunities.</p> <p>Underwriting schemes and purchase of land for affordable housing developments as opportunity and finance allow.</p> <p>Working with other providers.</p> <p>Participating fully in work of 'Essex Prevents'; joint working with ECC to agree how we can prevent homelessness.</p>	<p>Housing Research and Development Team continues to look for innovative ways of increasing affordable housing with developers and Registered Social Landlords.</p> <p>Use of Stat Nav toolkit to help identify need across the District.</p> <p>Build working relationships with developers to deliver affordable housing through S.106 agreements.</p>	Corporate Director (JL)	Local target for an average 100 dwellings per annum	Quarterly		<p>Local Plan in progress. Affordable Housing Viability Study has been completed.</p> <p>Regular meetings with all housing associations with local development programmes.</p> <p>Stat Nav data updated each year</p> <p>165 completions of new affordable homes in 2018/19. We expect 200 completions in 2019-20 and a similar number in 2020-21 if developments proceed as currently planned. This is likely to be the highest delivery for at least the last 25 years.</p> <p>Authority delegated to Cabinet Members for Housing and Finance and Performance Management to agree acquisitions and funding commitments within the overall affordable housing budget in order to allow timely decisions to be taken and prevent opportunities being lost.</p>

## Return on Investments – 7

Risk Rating D2 (D2 October 2018)

Management Board Owner – Corporate Director (CF)

Vulnerability	Trigger	Consequence
<p>The Council has an Investment Strategy which seeks to optimise use of available resources by investing in property, housing and other assets as well as investing surplus monies with financial institutions to achieve a reasonable rate of return and support the Council's revenue account.</p> <p>The security of the money invested is paramount but the Investment Strategy distinguishes between the investment of monies available only in the short-term due to cashflow requirements and monies (core funds) which are available for investment over the medium to long-term.</p> <p>The Council has set a limit of £20million on the amount of funds to be invested in pooled funds (equities and property) with the aim of achieving higher rates of return and capital growth over the medium term (3 to 5 years).</p> <p>The Council has increased its property portfolio where return on investment has been attractive and the quality of the tenant and the tenancy term has been good.</p> <p>The Council has an established Strategic Investment Group of Members responsible for advising on and monitoring the Investment Strategy.</p> <p>The impact of the current economic climate on financial institutions makes the selection of: a strong counterparty with which to invest, the selection of an asset, to purchase, and the tenant, to occupy and rent property, crucial.</p>	<p>Failure of investment counterparty.</p> <p>Tenant ceases trading leading to void period and requirement to find a new tenant.</p> <p>Collapse in the equity market at a time when the Council needs to release money by selling the equity pooled funds.</p> <p>Funds are needed to be recalled at short notice.</p>	<ul style="list-style-type: none"> <li>• Loss of the principal sum and / or interest due</li> <li>• Loss of rental income and increased costs (e.g. unoccupied business rates)</li> <li>• Impact on the Council's revenue account requiring unplanned service cuts and / or use of balances</li> <li>• Decline in Council reputation</li> </ul>

**Risk: Emergency Planning – 8**

Risk Rating: D1 (D1 October 2018)

Management Board Owner – Corporate Director (CR)

Vulnerability	Trigger	Consequence
<p>Braintree District Council has responsibilities under the Civil Contingencies Act (CCA) 2004a as a Category 1 responder: to plan for and respond to major emergencies working alongside the blue light services. Part 1 of CCA 2004 places legal obligations on emergency services and local authorities to assess the risk of, plan and exercise for emergencies as well as undertake business continuity management.</p> <p>Each service has to be resilient, through planned and tested procedures, to unexpected and potentially long term challenges.</p>	<p>Emergency event both response and recovery.</p>	<p>District Wide</p> <ul style="list-style-type: none"><li>• Possible loss of life or serious harm or injury to residents and/or staff.</li><li>• Loss of physical assets e.g. premises</li><li>• Ineffective response to an incident causes extended disruption.</li><li>• Vulnerable residents at risk through lack of core service delivery.</li><li>• Delays in recovery phase</li></ul> <p>Council</p> <ul style="list-style-type: none"><li>• Lack of preparedness results in the inability to deliver key/critical services e.g. benefits, refuse collection, homelessness applications, food inspections, etc.</li><li>• Increased short term demand for services e.g. housing - alternative accommodation, repairs, waste team clean-up operation</li><li>• Major impact on reputation if the Council is perceived to not provide an adequate response.</li><li>• Council facing Public Inquiry – risk of cost, reputation and public trust</li><li>• Priorities and projects are not delivered.</li><li>• Being found wanting at public inquiry.</li></ul>

Actions/controls already in place	Required action/ management control	Responsibility for action	Critical success factors and KPI's	Review frequency	Key dates	Progress to date
<p>A robust, peer reviewed Emergency Plan has been developed.</p> <p>New Communications &amp; Media plan.</p> <p>A new Rest Centres plan which sees all Essex local authorities using the same best practice procedures, documentation and equipment.</p> <p>A Members Protocol has been produced setting out guidance for Members during an emergency.</p> <p>Mutual Aid – agreements are in place between authorities BDC is strengthening its procedures to receive Mutual Aid;</p> <p>Services have identified key skeleton staff No.'s only</p>	<p>Bi-yearly review of Emergency Plan</p> <p>Bi-yearly review of Communications and Media Plan</p> <p>Rest Centres plan – run an annual exercise</p> <p>Deliver training programme incl: crisis communication training, Communications training for Management Board, Leader and Deputy Leader.</p> <p>Dialogue with partner organisations</p> <p>Oversee implementation</p> <p>Dialogue with partner organisations</p> <p>Services need to demonstrate the capability and capacity to manage excessive additional demand due the Council's responsibility for response and recovery under the CCA 2004, Housing Act. Local Government Act and other relevant legislation.</p>	<p>Corporate Director</p>	<p>Service and performance levels delivered as planned.</p>	<p>Annual</p>		<p>Training delivered: senior/tactical training, recovery training, loggist training, rest centre training;</p> <p>Peer reviewed training programme for staff involved at all levels, volunteers-tactical-strategic</p> <p>New starters will have a requirement to assist in emergencies detailed in their role profiles.</p> <p>Developing arrangements with our leisure partner Fusion to provide support during an emergency.</p>

**Risk: Information Management and Cyber Security – 9**

Risk Rating – C2 (C2 October 2018)

Management Board Owner – Corporate Director (CF and CR)

Vulnerability	Trigger	Consequence
<p>The Council has been responsive to technology and has used it to shape the way services are delivered, to drive efficiency and improve productivity.</p> <p>With the increased use of technology and larger amounts of information stored comes an increase of the impact created through cyber security threats.</p> <p>It is essential that customer's information, much of which is sensitive, is kept safe and that the Council ensures business continuity through strong management of its information and systems.</p> <p>The impact of changes in Data Protection legislation potentially impacts our ability to carry out services effectively and creates significant extra work for staff.</p> <p>The exit from the European Union, may impact on Data Protection legislation and the ability of the Council and its partners to manage and transfer personal data.</p>	<p>Cyber attack Hacking Distributed Denial of service Phishing/Spear Phishing Ransomware Emerging threats</p> <p>Information Security or Data Breach incident</p> <p>Loss of computer systems</p> <p>Loss of access to physical or digital information through emergency incident</p> <p>Staff do not manage data effectively</p>	<ul style="list-style-type: none"><li>• Loss of ability to deliver service/degradation in service</li><li>• Loss of reputation</li><li>• Enforcement from Information Commissioner's Office with a potentially significant fines and reputational damage</li><li>• Inability to collect/payout money to customers</li><li>• Inability to share customer data with partners</li><li>• The Council cannot meet its requirements under the Data Protection legislation</li><li>• The Council is not able to adequately manage its information, which would then prevent it from being able to carry out services effectively.</li></ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>Security policies – regularly reviewed and updated.</p> <p>External auditing and challenge on a regular basis against policies and systems as well as regular external penetration testing with action plans created.</p> <p>Regular review of technical infrastructure, including firewalls, hardware and software.</p> <p>PSN Compliance.</p> <p>Training/education in cyber security for users.</p> <p>6-weekly meeting of cyber-security sub-group to review all aspects of cyber-security.</p> <p>Regular meta-compliance checks for all employees and Members.</p> <p>Project Plan to deliver and ensure ongoing management of Data Protection legislation.</p>	<p>Continued review of cyber security arrangements</p> <p>Raise awareness of information management and cyber security issues for all staff and members.</p> <p>Review resourcing requirements around data protection and information management.</p> <p>Targeted training.</p> <p>Induction courses for new entrants.</p> <p>Software kept up to date.</p> <p>End of life hardware replaced as and when necessary.</p>	Corporate Director	<p>Up to date Reviews</p> <p>Year on year improvements</p> <p>Number of articles published/ seminars delivered.</p> <p>Training demand met.</p> <p>New entrants on induction within 2 weeks of joining.</p>	Quarterly		<p>Project Plan to ensure ongoing management of Data Protection legislation.</p> <p>Strategic Information Governance Group of officers established.</p>

**Strategic Investment - 10**

Risk rating C2 (C2 October 2018)

Management Board Owner – Corporate Director (JL)

Vulnerability	Trigger	Consequence
<p>The District Investment Strategy targets capital investments to support infrastructure improvements, with particular emphasis on: improved healthcare facilities, enhanced town centres, increased employment and business opportunities, improved highways infrastructure.</p> <p>Investment intervention is required to support planned housing and population growth in the District.</p> <p>Capital investments must make a positive financial return for BDC.</p> <p>Most of the identified investment opportunities require work with partners who may or may not have the same level of commitment to a project as BDC.</p> <p>Funding from other partners or government may not be available to support the action plan priorities.</p> <p>Brexit and other macroeconomic uncertainties may adversely affect BDC's ability to deliver financially viable capital investments: for example, increased construction costs, house price deflation, and commercial rent deflation.</p> <p>Failure to secure planning consent on development projects.</p> <p>In adequate systems and processes lead to inconsistent decision making, failure to agree and stick to priorities, under- utilisation of finite resources, weak cost control, over-reliance on external advice without proper challenge or consideration of the brief/scope/purpose.</p> <p>Focus on detail at the expense of core objectives Minority "shareholder" in NEGC.</p> <p>Insufficient stakeholder management.</p>	<p>Lack of investment in infrastructure acts as a barrier to required housing growth and reduces opportunities for businesses to grow.</p> <p>Inability to secure prudential borrowing at preferential interest rates.</p> <p>Prolonged period (&gt;six months) of house price deflation.</p> <p>Prolonged period (&gt;12 months) of commercial rent deflation.</p> <p>Above inflation increase in construction costs.</p> <p>Projects undeliverable due to refusal of planning consent.</p> <p>Failure to sell/lease newly developed properties.</p> <p>Failure to clarify and agree core project and/or programme objectives, Critical Success Factors (CSF) or KPIs.</p> <p>Approval of Local Plan generates urgency on detail without proper and independent consideration of options.</p> <p>Project failure or delay due to lack of stakeholder engagement.</p>	<ul style="list-style-type: none"> <li>• Lack of infrastructure could inhibit delivery of Local Plan housing numbers.</li> <li>• Approved schemes already in development may not achieve required financial return.</li> <li>• Potential for existing businesses/jobs relocating outside of District</li> <li>• Fewer new businesses/jobs being created</li> <li>• Falling Gross Value Added (GVA) in the District</li> <li>• Loss of revenue growth in Council Tax and Business Rates</li> <li>• Expectations raised and disappointed</li> <li>• Unplanned and/or abortive expenditure</li> <li>• Dilution of political support for programme</li> <li>• Public perception of Council lavish spending and lack of effective control</li> </ul>



Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>District Investment reserve approved and ring-fenced.</p> <p>All investment opportunities rely on cost/value advice provided by expert third party specialists.</p> <p>All investment opportunities appraised via industry-standard development software.</p> <p>Strong working relationship with Essex County Council, Haven Gateway, the South East Local Enterprise Partnership (LEP), Homes England on major projects and key priorities.</p> <p>Engagement with relevant BDC teams (Asset Management, Operations) to ensure early engagement on scheme design to ensure end product is lettable and fit-for-purpose.</p> <p>Procurement of appropriate architects and planning consultants for each scheme.</p> <p>Braintree Education and Skills Board has been established and is progressing projects. Clear governance structure &amp; relatively brisk decision making process.</p>	<p>Continual monitoring of costs and spend.</p> <p>Continued use of expert third parties to provide comprehensive cost estimates and advice of market trends.</p> <p>Consistent modelling to agreed financial parameters.</p> <p>Increased networking and promotion of BDC's investment aspirations with key external stakeholders and potential funders. Continue to source local and national funding resources which could provide grants for key projects.</p> <p>Implementation of timely, high-quality marketing strategies for all development projects.</p> <p>Early engagement with Planning Team and judicious use of the pre-application process.</p> <p>Increase organisational "maturity" and embed rigorous and consistently applied processes and reporting.</p> <p>Regular review of approved parameters and hurdle rates.</p> <p>Weighted NPV measure to reflect non-financial priorities</p>	Chief Executive Corporate Director (JL)	<p>Delivery of all projects approved via District Investment Strategy.</p> <p>Delivery of all projects to budget and approved financial return.</p> <p>Delivery of all projects to budget and approved financial return.</p> <p>Leverage of third party funding to support BDC capital projects.</p> <p>New Business start-ups.</p> <p>Sale/letting of new properties at approved levels and to approved timescales.</p> <p>Achievement of detailed planning consent first time, every time.</p> <p>CSF's &amp; KPI's: Jobs created; Spend in local economy; Business rates generated.</p>	Quarterly		<p>Braintree Enterprise Centre Phase 2 completed within approved budget and generating approved level of return.</p> <p>Consistent presentation of detailed costs to all BDC approval bodies. Close joint-working with Finance Team to model financial impact of all opportunities.</p> <p>£250k ECC design grant secured on I-Construct and Manor Street projects.</p> <p>£4.95m DoT funding secured on Mill Slips project.</p> <p>Procurement of expert commercial and property agents to advise on achievable values, marketing and sales rates.</p> <p>Detailed planning consent secured for Braintree Enterprise Centre Phase 2.</p> <p>Manor Street – contract signed.</p> <p>Horizon 120 – progress on Local Development Order and procurement of infrastructure.</p>

## Climate Change – 11 (NEW)

Risk Rating C2 (November 2019)

Management Board Owner – Corporate Director (CR)

Vulnerability	Trigger	Consequence
<p>'Climate change' refers to changes in the earth's climate that are caused by increasing levels of greenhouse gases such as carbon dioxide (CO<sub>2</sub>) in the atmosphere.</p> <p>Climate change adaptation describes measures that can be put into place to help us adapt the changes in our climate that are now inevitable. These changes range from increased temperatures and drought conditions to extreme weather events such as intense periods of rainfall and subsequent flash flooding.</p> <p>The Council has declared a "Climate Emergency" with an aim to make Braintree District Council activities, as far as practical, carbon neutral by 2030.</p> <p>Climate change will impact council services, from the buildings that we manage through to open spaces and our role in emergency planning, as well as impacting on Braintree district residents, particularly those who are most vulnerable.</p> <p>The services provided by the Council are reliant on access to all parts of the district by our vehicles and the ability of staff to travel to their place of work.</p> <p>Business Continuity plans are essential for the Council to be able to respond to the effect of climate change on our estate and our staff which impacts our services. This is combined with the potential increasing and changing demand for services including parks and landscapes, environmental health, community support, health and wellbeing, building control etc.</p>	<p>Increase in mean temperature.</p> <p>Decrease in air quality.</p> <p>Depletion of key resources including water</p> <p>Severe weather event(s).</p> <p>Failure to deliver 2030 carbon neutral target.</p>	<ul style="list-style-type: none"> <li>• Failure to maintain/deliver services and an increased cost of delivering services.</li> <li>• Increased financial costs for Council (due to insurance excesses/ pressures on service delivery)</li> <li>• Reduction in resilience of the organisation</li> <li>• Reputation of Council damaged through failure to deliver services.</li> <li>• Failure to give local community leadership in preparing for climate change.</li> </ul>

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
<p>Climate Local Strategy 2014 to 2018 in place and a number of actions being undertaken to reduce negative impact on climate from Council services and assets as well as encouraging residents and businesses to reduce their impact on the climate.</p> <p>A Climate Change working group has been established. An action plan is to be developed to ensure all Council functions and decision making is in line with the shift to carbon neutral by 2030.</p> <p>Emergency Plan considers climate related risks and our response to this type of emergency.</p> <p>Climate Local Strategy has a number of actions in place to support the community to adapt to climate change.</p> <p>Business Continuity plan for the organisation to respond to risks.</p>	<p>New Climate Strategy being developed with the support of the Climate Change working group.</p> <p>Continue to review Emergency Plan to consider emerging issues and risks.</p> <p>Business Continuity plan is being reviewed to specifically consider climate risks.</p>	<p>Corporate Director</p> <p>Sustainability Manager</p> <p>Sustainability Manager</p>	<p>New Climate Strategy and Action Plan received by Council.</p>		<p>Sept. 2020</p>	<p>Completed actions from the Climate Local Action Plan 2014 – 2018. Further details on achievement available.</p> <p>Declared Climate Emergency July 2019.</p> <p>Initiated a Climate Change Working Group representing the Council, Businesses and Residents with academic support to develop the next Climate Local Strategy.</p> <p>Annual Emergency Planning desktop exercise, concerning severe weather, for BDC nominated Gold/Silver officers and loggists held on 17<sup>th</sup> July 2019. Facilitated by an associate lecturer from the Emergency Planning College.</p> <p>Officer group established to encourage waste reduction by staff and at council premises.</p>



Updated Regulation of Investigatory Powers Act (2000) and Investigatory Powers Act (2016) Policy		Agenda No: 11
Portfolio	Finance and Performance Management	
Corporate Outcome:	A high performing organisation that delivers excellent and value for money services	
Report presented by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Report prepared by:	Angela Mitchell, Audit, Insurance and Fraud Manager	
Background Papers:	Public Report	
None.	Key Decision: No	
Executive Summary:		
This report presents the revised Draft Regulation of Investigatory Powers Act (2000) and Investigatory Powers Act (2016) revised policy for approval, and informs Members of the outcome of the recent RIPA / IPA inspection conducted by the Investigatory Powers Commissioner’s Office (IPCO).		
Recommended Decision:		
Members are requested to:		
a) Note the outcome of the recent the Investigatory Powers Commissioner’s Office Inspection, and;		
b) Approve the revised Regulation of Investigatory Powers Act 2000 and Investigatory Powers Act 2016 Policy, as detailed in the Appendix to the main report.		
Purpose of Decision:		
The Corporate Governance Group functions include monitoring the Council’s counter fraud and corruption arrangements: RIPA is the legislation governing covert surveillance techniques used in investigations, and IPA makes provisions relating to the acquisition of communications data.		

Any Corporate implications in relation to the following should be explained in detail.	
<b>Financial:</b>	None.
<b>Legal:</b>	None.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	None.
<b>Officer Contact:</b>	Angela Mitchell
<b>Designation:</b>	Audit, Insurance and Fraud Manager
<b>Ext. No:</b>	2821
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## **1. REGULATION OF INVESTIGATORY POWERS ACT AND INVESTIGATORY POWERS ACT INTRODUCTION**

- 1.1. Regulation of Investigatory Powers Act (RIPA) 2000 is the law governing the use of covert techniques by public authorities. If the Council needs to use covert techniques to obtain private information about a person subject to investigation, the law requires that we seek only necessary information and do this in a manner which is proportionate and compatible with human rights. An application to conduct covert surveillance is subject to both internal approval routes, and also to judicial approval.
- 1.2. Investigatory Powers Act (IPA) 2016 makes further provisions relating to the acquisition of communications data (the 'who', 'when', 'where' and 'how' of a communication, but not the content (i.e. What was said or written). The Act also makes provision for the interception of communications which Local Authorities are not permitted to do. IPA applications are submitted to the National Anti-Fraud Network for review before being passed to the Office for Communications Data Authorisations for approval.
- 1.3. Braintree District Council has not made any applications for RIPA or IPA since 2012.

## **2. INVESTIGATORY POWERS COMMISSIONER'S OFFICE INSPECTION**

- 2.1. The Investigatory Powers Commissioner's Office (IPCO) conduct inspections of each Local Authority approximately every three years, the last inspection was conducted in May 2020. The outcomes of the inspection were:
  - Braintree District Council has demonstrated a level of compliance such that no physical inspection was required at this time.
  - The inspector reviewed the Council's draft RIPA / IPA policy, his comments have been incorporated into the draft policy attached.
  - Investigating Officers from teams most likely to use RIPA have received training, and further training is planned. The Inspector reiterated the importance of maintaining up to date training in RIPA and IPA, the Council is planning training for Authorising Officers and staff conducting investigations, and additional training in open source intelligence gathering.
  - The Inspector was satisfied that staff did not use covert profiles or pseudonym accounts to conduct internet or social media enquiries to befriend individuals or for systematic monitoring of social networking sites.
  - There has been no formal report of the Council's use (or absence thereof) of RIPA powers to elected Members since 2018. The Inspector was satisfied that the pending approval of the RIPA Policy by the Corporate Governance Group was an opportune time to remedy this, and future Internal Audit progress reports will also provide an update on any RIPA / IPA applications.
  - IPCO are currently conducting work on the safeguarding of data and information acquired under RIPA / IPA (relating to how the data is retained, reviewed and ultimately destroyed), the Inspector provided further advice on actions to ensure compliance in this area. The

Monitoring officer is currently conducting work on document retention, and will review the approach to data safeguarding, and this will be included in the next RIPA / IPA training.

### **3. REVISED DRAFT RIPA 2000 AND IPA 2016 POLICY**

- 3.1. The RIPA Policy was being updated prior to notification of the IPCO Inspection, the Inspector's comments have been incorporated in the revised policy. The Policy was reviewed by Management Board in June 2020.
- 3.2. The revised policy provides links to detailed guidance from the Office of Surveillance Commissioner and IPCO, has an up to date list of Officers involved in authorisation and oversight of RIPA and IPA activity, includes updated references to document retention, and contains a decision chart to support the process.
- 3.3. The revised policy is provided in the attached Appendix.



# RIPA 2000 & IPA 2016 CORPORATE POLICY



## REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) and INVESTIGATORY POWERS ACT 2016 (IPA)

### Authors:

- James Godsmark, Auditor
- Angela Mitchell, Audit Insurance & Fraud Manager and RIPA Coordinating Officer

### Internal Consultants

- Chris Fleetham, Corporate Director and Senior Responsible Officer
- Andy Wright, Chief Executive and Authorising Officer
- Lee Crabb, Head of Environment and Authorising Officer
- Daniel Mellini, Environmental Health Manager
- Kim Cole, Head of Governance and Monitoring Officer
- Stuart Clark, Fraud Investigator

### External consultant

- Gerald Horne, IPCO Inspector (reviewed draft May 2020, prior to internal consultation)

### Background / Purpose of Policy:

This policy gives staff guidance on the lawful use of covert investigatory techniques under the Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016 (IPA)

### Version Control:

- V1. Regulation of Investigatory Powers Act 2000 Corporate Guidelines – October 2003
- V2. Regulation of Investigatory Powers Act 2000 Corporate Guidelines – Revised July 2007
- V3. Regulation of Investigatory Powers Act 2000 Corporate Guidelines – Revised April 2010
- V4. Regulation of Investigatory Powers Act 2000 Corporate Guidelines – Revised February 2011
- V5. Regulation of Investigatory Powers Act 2000 Corporate Guidelines – Revised November 2012
- V6. Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016 (IPA) – Revised September 2016
- V7. Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016 (IPA) – Revised June 2020 (this version) DRAFT

### Policy Approval – Officer Level:

- Chris Fleetham, Corporate Director
- Corporate Management Board – 16 June 2020

### Policy Approval – Member level:

- Corporate Governance Group

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**1. INTRODUCTION**

- 1.1. RIPA sets out a framework for the use of covert investigatory techniques by public authorities. RIPA does not give any powers to carry out covert activities, it regulates them in a manner compatible with human rights laws.
- 1.2. **RIPA must only be used as a final resort** if you cannot obtain the necessary information from another source. Any Officer contemplating the use of RIPA should first consult the RIPA Co-ordinating Officer.
- 1.3. The Investigatory Powers Act has updated some elements of RIPA and is now the main legislation governing communications data.
- 1.4. Braintree District Council (BDC) as a local authority can use some surveillance techniques under the RIPA and IPA. These techniques are:
- Directed surveillance
  - Covert Human Intelligence Sources (CHIS)
  - Communications data (entity and events data)

1.5. BDC **cannot** use the following surveillance techniques:

- Intrusive surveillance
- Targeted interception – the content of Communications (see also 5.1.1)
- Enter or interfere with property, or with wireless telegraphy or postal communications.

## 2. SCOPE OF POLICY

2.1. This policy applies to all employees (permanent or temporary), contractors and Members of Braintree District Council. The aim of this policy is to give staff guidance on using Investigatory Powers in line with legislation.

## 3. MANAGEMENT OF RIPA & IPA

3.1. **Senior Responsible Officer – Chris Fleetham** – is responsible for:

- The integrity of the process in place within the Council for the management of RIPA and IPA.
- Compliance with Part II of RIPA and the Codes of Practice.
- Compliance with Part 3 of IPA and the Codes of Practice
- Engagement with the officers, commissioners and inspectors when they conduct their inspections.
- Where necessary, overseeing the implementation of any post inspection action plans recommended or approved by a Commissioner or similar.
- Oversight of the reporting of errors to the IPC and prevention of further errors.

3.2. **RIPA Co-ordinating Officer** – Angie Mitchell is responsible for:

- maintenance of the Central Record of RIPA activity
- organisation of training requirements
- oversight and quality control of documentation
- raising awareness of RIPA throughout the organisation

3.3. **Authorising Officers:**

- Chief Executive (Andy Wright)
- Corporate Director (Chris Fleetham)
- Corporate Director (Cherie Root)
- Head of Environmental Services (Lee Crabb)
- Head of Operations (Paul Partridge)
- Audit, Insurance & Fraud Manager (Angie Mitchell)

Authorising officers are personally responsible for ensuring all activity is in accordance with the Act and Statutory Code of Practice and maintaining relevant controls and procedures to ensure this.

3.4. **Training:**

Officers holding the above roles, and Officers who may conduct activity requiring RIPA authorisation, will be trained at least every 3 years

## 4. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

### 4.1. Overview

4.1.1. RIPA regulates the authority's use of Directed Surveillance and Covert Human Intelligence Sources. BDC can only use these techniques for the purpose of **preventing or detecting crime or preventing disorder**. Surveillance must cease if, as the investigation progresses, this is not the case.

4.1.2. RIPA does not cover surveillance carried out as a result of an **immediate** response to events or circumstances which could not have been foreseen. For example authorisation is not required if a staff member conceals themselves to observe a suspicious person they have come across in the course of their work.

### 4.2. Application Process

4.2.1. These techniques must be internally approved by an Authorising Officer (see para 3.3 above) and must be **necessary** and **proportionate**. The Authorising Officer must also consider the privacy of people other than the subject, this is known as **collateral intrusion**. Before any surveillance takes place it must be approved by a Justice of the Peace (Magistrate or District Judge).

4.2.2. Application forms can be found at <https://www.gov.uk/government/collections/ripa-forms--2> Copies of all forms used in the RIPA application should be provided to the RIPA co-ordinator.

### 4.3. Directed surveillance

4.3.1. Local authorities can only conduct direct surveillance in investigations where they are investigating a **criminal offence** which has a **minimum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco** (only specified offences).

4.3.2. Directed Surveillance is covert, but not intrusive (see definition), and is undertaken:

- for the purpose of a **specific** investigation/operation;
- in a manner which is likely to result in obtaining **private information** about a person (whether the subject or third party);
- And not as an immediate response to events.

4.3.3. Further details can be found in the Code of Practice for Covert Surveillance <https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>

- 4.3.4. Directed Surveillance Application, Renewal, Review, and Cancellation forms are available at <https://www.gov.uk/government/collections/ripa-forms--2>

#### 4.4. Covert Human Intelligence Source (CHIS)

- 4.4.1. A person is a source if they:
- Establish or maintain a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling in the following two points.
  - Covertly use such a relationship to obtain information or to provide access to any information to another person or
  - Covertly disclose information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.
- 4.4.2. The management of a CHIS is of upmost importance. Each CHIS will have a handler and controller. The handler will usually be the point of contact with the CHIS. The controller will supervise the CHIS and monitor the use of the CHIS.
- 4.4.3. Further details can be found in the Code of Practice for CHIS <https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice>
- 4.4.4. CHIS Application, Renewal, Review, and Cancellation forms are available at <https://www.gov.uk/government/collections/ripa-forms--2>

#### 4.5. Authorisation levels and durations

- 4.5.1. Local authorities have a two level authorisation process for RIPA. First the activity must be approved internally by an Authorising Officer or the Head of Paid Service (see below table). Ideally this officer should not have been directly involved in the investigation. Authorisation must be given in writing. This application must then be presented to a Justice of the Peace (Magistrate or District Judge) for authorisation. For more details: *Protection of Freedoms Act 2012 – changes to provisions under the Regulation of Investigatory Powers Act 2000 (RIPA) Home Office guidance to local authorities in England and Wales on the judicial approval process for RIPA and the crime threshold for directed surveillance.*

- 4.5.2. If the authorisation is approved it is valid for the following durations:

	<b>Internal authorisation levels</b>	<b>Durations (unless renewed or cancelled)</b>
<b>Directed surveillance</b>	Authorising Officer	3 months
<b>Covert Human Intelligence Source (adult)</b>	Authorising Officer	12 months

<b>Covert Human Intelligence Source (child/vulnerable person)</b>	Head of Paid Service (Deputy - Corporate Director)	4 months
<b>Surveillance involving confidential information</b>	Head of Paid Service (Deputy - Corporate Director)	As above

- 4.5.3. Authorisations should be reviewed at least once a month by the Authorising Officer to assess the need for them to continue. Authorisations can be renewed for the same period again if approved by the Authorising Officer and Justice of the Peace. If an authorisation is not renewed before the end date it must cease. All authorisations must be **cancelled** as soon as the surveillance is no longer required.

## 4.6. Social Media

- 4.6.1. The fact that digital investigation is routine or easy to conduct does not reduce the need for authorisation, and care must be taken to understand how social networking sites are being used. Repeated viewing of 'open source' sites may constitute directed surveillance, and if a relationship is established or maintained by an Officer of the Council or a member of public acting on its behalf, an authorisation for the use and conduct of a CHIS is necessary
- 4.6.2. It is not unlawful for a member of a public authority to set up a false identity but it is inadvisable for a member of a public authority to do so for a covert purpose without an authorisation for directed surveillance when private information is likely to be obtained. Further information is available in the Surveillance Code of Practice paragraphs 3.10 to 3.17 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/742041/201800802\\_CSPI\\_code.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf)
- 4.6.3. Online investigations should only be conducted by suitably trained staff. For further information please see the Corporate Policy on the Use of Social Networking Sites for Investigations, and the Staff Social Media Policy (available via the Beehive).

## 4.7. CCTV

- 4.7.1. Overt CCTV systems such as those used in towns or shopping centres do not usually require RIPA authorisation. However, should these cameras be used for a specific investigation or operation then an authorisation for direct surveillance may be required.
- 4.7.2. Further information can be found in the Surveillance Camera Code of Practice <https://www.gov.uk/government/publications/surveillance-camera-code-of-practice>



#### 4.8. Retention and disposal of records

- 4.8.1. Staff must ensure they comply with legal frameworks including Data Protection, to ensure the handling of private information is lawful, justified and strictly controlled, including ensuring the security of material through review of the access to / physical storage of data (including electronic, email, paper and other forms of media), and secure destruction in accordance with retention periods.
- 4.8.2. The RIPA Co-ordinating Officer will maintain a central record for all authorised surveillance activity and supporting documents for a period of at least seven years. After this period, if they are no longer required, they will be securely destroyed/deleted.
- 4.8.3. The Code of Practice details the procedures and safeguards to be applied in relation to the handling of any material obtained through directed or intrusive surveillance, further details of information safeguarding requirements are available in Section 9 of the Code of Practice:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/742041/201800802\\_CSPI\\_code.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf)

### 5. INVESTIGATORY POWERS ACT 2016 – COMMUNICATIONS DATA

#### 5.1. Overview

- 5.1.1. The Investigatory Powers Act 2016 is now the main legislation governing communications data. This includes how local authorities obtain communications data. Communication data includes who, what, when, how and with whom but it **does not** include the content. Local authorities **cannot** obtain Internet Connection Records (ICR) or intercept communications. Communications data includes electronic communications, telecommunications and postal network.
- 5.1.2. As with RIPA authorisations data request must be **Proportionate** and **Necessary** and steps must be taken to **avoid Collateral Intrusion**.
- 5.1.3. BDC can request **Entity data** for the **prevention and detection of any crime**. Entity data is the data regarding entities and the links between them but does not include information about individual events. Entities include individuals, groups or objects (e.g. communication devices). This was previously known as subscriber data.
- 5.1.4. BDC can only request **Events data** for investigations into a **Serious Crime**. This is defined as an offence:
- Capable of attracting a prison sentence of **12 months** or more;
  - By a person who is not an individual (e.g. corporate body);

- That involves the use of violence, results in substantial financial gain or is conduct by a large number of persons in pursuit of a common purpose;
- Which involves, as an integral part of it, the sending of a communication or a breach of a person's privacy.

Events data Identifies or describes events which consists of one or more entities engaging in an activities at specific points in time.

## 5.2. Application process

5.2.1. BDC applies to obtain communications data through NAFN who are the SPoC for BDC. One of the approved persons (as Authoring Officers in para 3.3 above) must be made aware of the application. It can then be sent to the SPoC to be reviewed. If they approve the request it is sent onto **The Office for Communications Data Authorisations (OCDA)** for authorisation. This is a different process to RIPA, of note the internal approved person does not have an authorising role. Also this application is not made to a Justice of the Peace.

5.2.2. Once approved the authorisation is valid for one month unless extended. If an authorisation is no longer required the SPoC must be informed **immediately**. If the SPoC believes that more work is required on the application they will send it back for a rework. The applicant has **14 days** to complete the work and resubmit. If OCDA reject the application BDC have two options to progress the application. They can revise the application and re-submit it or request the OCDA review their decision. The appeal must be made by the SRO (see Appendix A) within **7 days** of the decision.

## 5.3. Criminal offences

5.3.1. The Act introduces two offences that applicants need to be aware of:

- 5.3.1.1. S11 Unlawfully Obtaining Communications Data.  
Makes it an offence for an officer, without lawful authority, to knowingly or recklessly obtain communications data.
- 5.3.1.2. S82 Telecommunications Operators (TO) Unlawful Disclosure.  
Makes it an offence for anyone working for a TO to disclose, without reasonable excuse, the existence of a communications data request without permission.

## 5.4. Recordable, reportable and serious errors

5.4.1. Any errors involved in the acquisition of communications data should be recorded or reported to the Investigatory Powers Commissioner (IPC) as required by law.



5.4.2. For more information see the Communications Data Code of Practice  
<https://www.gov.uk/government/publications/investigatory-powers-act-2016-codes-of-practice>

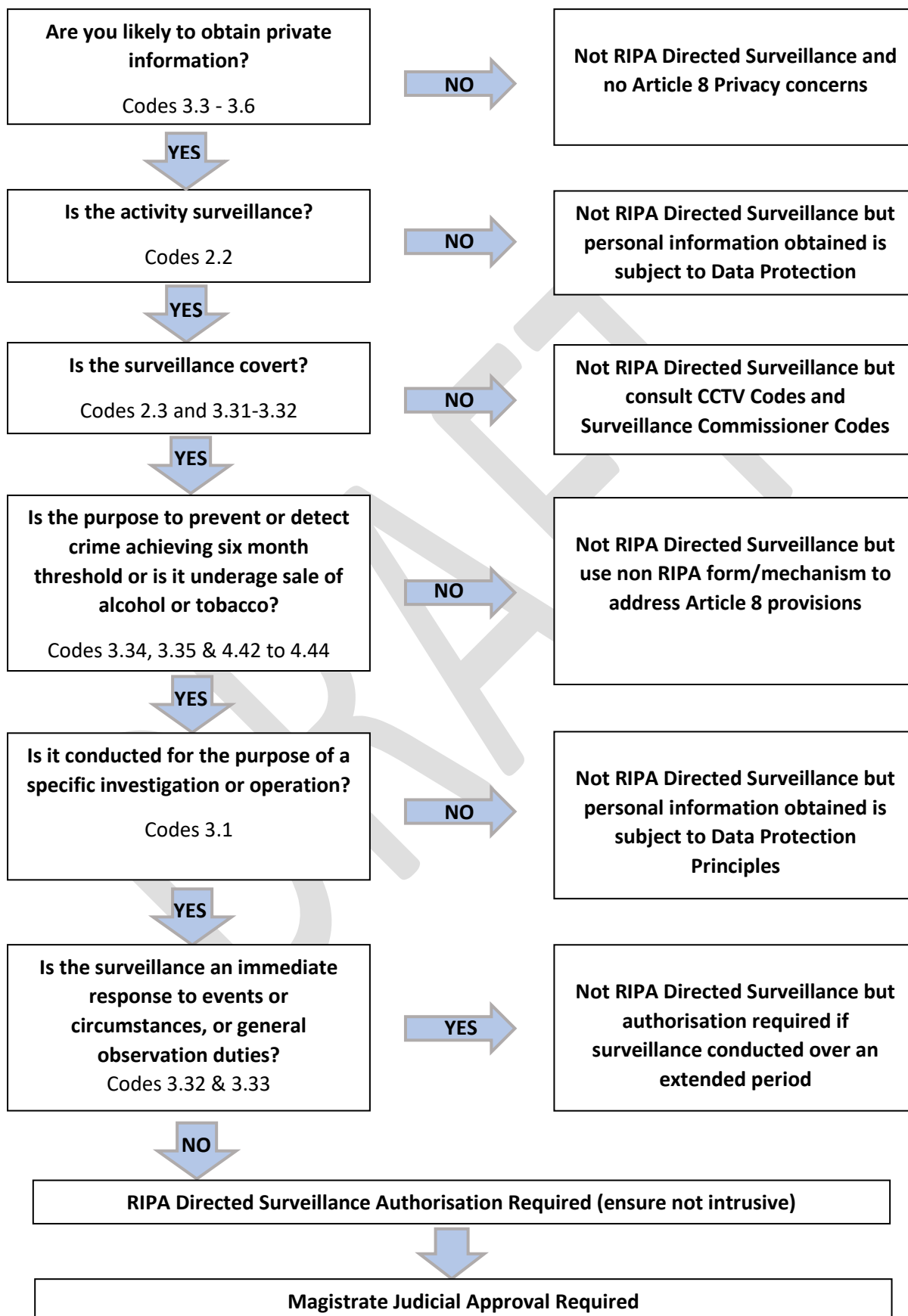
Or the NAFN IPA General Awareness Briefing

<https://www.local.gov.uk/sites/default/files/documents/NAFN%20Investigatory%20Powers%20Act%20Guidance%20Booklet.pdf>

## 6. LINKS TO OTHER BRAINTREE DISTRICT COUNCIL POLICIES

- **Social Media Policy** – available via the intranet (Beehive), this policy defines corporate protocols for the general use of social media for corporate and personal purpose, whether or not the social media is being accessed using BDC or personal equipment
- **Policy on the Use of Social Media in Investigations** – this policy defines the permitted scope of use of social media for investigations, and the activity requiring RIPA authorisation

## Appendix A – RIPA Directed Covert Surveillance Decision Chart



**Appendix B - General Definitions** (refer to the legislation for detailed definitions)

**Collateral intrusion** - occurs when organisations obtain information about people who are not the target of the initial enquiry. Where possible collecting information on other people should be avoided. If it cannot be avoided steps should be taken to mitigate it.

**Proportionality** – The authorising officer must balance the intrusiveness of the activity on the subject and others against the operational need for the activity. The following should be considered:

- The size and scope of the activity against the gravity/extend of the crime;
- How and why the methods will cause the least possible intrusion;
- Is the activity the most appropriate use of legislation for obtaining the necessary result;
- All less intrusive alternatives to achieve the result.

**Covert** - concealed, hidden, done secretly

**Intrusive surveillance** - is covert surveillance, carried out in relation to anything taking place on any residential premises or in any private vehicle and involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device.

**Private information** - includes any information relating to a person's private or family life.

**Confidential Information** – includes communications subject to legal privilege, communications between a MP and another on constituency matters, confidential personal information or confidential journalistic material.

ANNUAL GOVERNANCE STATEMENT 2019/20		Agenda No: 12
Corporate Priority:	A high performing organisation that delivers excellent and value for money services Delivering better outcomes for residents and businesses and reducing costs to taxpayers	
Report presented by:	Trevor Wilson, Head of Finance	
Report prepared by:	Trevor Wilson, Head of Finance	
Background Papers:	Public Report	
'Delivering Good Governance in Local Government – Framework' published by CIPFA and SOLACE 2016.  Braintree District Council Local Code of Corporate Governance agreed by Governance Committee on 24 <sup>th</sup> April 2019.	Key Decision: No	
Executive Summary:		
<p>The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement (the Statement) for 2019/20.</p> <p>This review includes the established information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against a best practice framework devised by CIPFA/SOLACE.</p> <p>The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and delivery of objectives. Any shortfalls identified in these arrangements through the review process are included as action points for the coming year.</p> <p>The review process includes:</p> <ul style="list-style-type: none"><li>• Obtaining assurance from Senior Managers, who report to a member of the Management Board, that key control systems have operated effectively within their areas of responsibility throughout the year</li><li>• Reviewing the Council's governance framework against the best practice framework devised by CIPFA/SOLACE</li><li>• Annual update of the Local Code of Corporate Governance: current version was agreed by the Governance Committee on 24<sup>th</sup> April 2019.</li><li>• Reviewing all External Audit and Inspection reports and Internal Audit reports.</li></ul>		

The published Annual Governance Statement is required to detail the governance and control framework in place in the Council during 2019/20 and up to the date of publication of the Statement. Where arrangements are not in line with best practice or are not working effectively, this should be recorded in the Statement together with action plans for improvement.

The governance framework has been in place at Braintree District Council for the year ended 31<sup>st</sup> March 2020 and for the majority of the year was unaffected by the Coronavirus pandemic. However, Coronavirus has impacted on governance during March 2020 and has continued to have an impact during the period up to the date of publication. The Annual Governance Statement therefore reflects the impact on governance as a consequence of the Coronavirus.

### The Annual Governance Statement

The process of preparing the Annual Governance Statement should itself add value to the Corporate Governance and internal control framework of the Council. The Statement is required to be approved by 31<sup>st</sup> August 2020 and should also be up-to-date at the time of publication (required by end of November 2020). The best practice framework provides guidance on what the Statement should contain, including:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's Code of Governance;
- reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the Cabinet, the Corporate Governance Group, internal audit and others as appropriate;
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
- reference to how issues raised in the previous year's Annual Governance Statement have been resolved;
- a conclusion – a commitment to monitoring implementation as part of the next annual review.

Following an initial review the proposed updated Local Code of Corporate Governance is included at Appendix A.

A draft of the Annual Governance Statement is included at Appendix B for Member's consideration.

<b>Decision:</b>
To agree:
<ol style="list-style-type: none"><li>1. The updated Local Code of Corporate Governance as detailed in Appendix A, and;</li><li>2. The Annual Governance Statement for 2019/20, as detailed in Appendix B, for signing by the Leader of the Council and the Chief Executive.</li></ol>
<b>Purpose of Decision:</b>
To evidence that the Council has conducted a review of the effectiveness of its system of internal control for 2019/20, ensure that the Annual Governance Statement for 2019/20 is correct and in order for the Leader of the Council and the Chief Executive to sign.

To agree:

1. The updated Local Code of Corporate Governance as detailed in Appendix A, and;
2. The Annual Governance Statement for 2019/20, as detailed in Appendix B, for signing by the Leader of the Council and the Chief Executive.

**Purpose of Decision:**

To evidence that the Council has conducted a review of the effectiveness of its system of internal control for 2019/20, ensure that the Annual Governance Statement for 2019/20 is correct and in order for the Leader of the Council and the Chief Executive to sign.

<b>Any Corporate implications in relation to the following should be explained in detail</b>	
<b>Financial:</b>	None arising from this report.
<b>Legal:</b>	Meets requirement to undertake an annual review of the Council's Governance arrangements (Regulation 6(1) of the Accounts and Audit Regulations 2015) as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
<b>Safeguarding</b>	None arising from this report.
<b>Equalities/Diversity</b>	Various aspects of the Annual Governance Statement are directly relevant to diversity and social inclusion. Examples include arrangements to consult with and encourage the participation of all sections of the community, communications with stakeholders and the requirement for services to be provided in accordance with equality policies.
<b>Customer Impact:</b>	Review provides assurance of the adequacy of the Council's governance arrangements and identifies actions to be taken in the coming year to further improve the arrangements.
<b>Environment and Climate Change:</b>	None arising from this report.
<b>Consultation/Community Engagement:</b>	None arising from this report.
<b>Risks:</b>	The Council is legally required to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.
<b>Officer Contact:</b>	Trevor Wilson
<b>Designation:</b>	Head of Finance
<b>Ext. No.</b>	2801
<b>E-mail:</b>	Trevor.wilson@braintree.gov.uk



# Braintree District Council

## Local Code of Corporate Governance

### INTRODUCTION

The International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines governance as follows:

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

The International Framework also states that:

*“To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives while acting in the public interest at all times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organisational interest. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders”.*

### GOOD CORPORATE GOVERNANCE

Braintree District Council is committed to achieving good corporate governance and this Local Code describes how the Council intends to achieve this in an open and explicit way. The local code is based upon the CIPFA SOLACE framework “Delivering Good Governance in Local Government” (April 2016) which replaced the document published in 2007. As laid out in the guidance it *“is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities”*. Consequently the local Code has been written to reflect the Council’s own structure, functions, and the governance arrangements in existence.

*The local code is based on the following 7 principles, the first 2 of which underpin the remaining 5 with the overall aim of “**Achieving the intended outcomes while acting in the public interest at all times**”.*

The principles are as follows:

Acting in the public interest requires a commitment to and effective arrangements for:



- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement

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

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Many of the requirements of the code are included in the Council's Constitution and the Council's key strategies and policies.

[Council Constitution](#)

[Key Corporate Strategy documents](#)

### **MONITORING AND REVIEW**

The Code of Corporate Governance is subject to annual review. This review includes an assessment as to the effectiveness of the processes contained within the Code. This includes annual assessments such as the Head of Internal Audit's Annual Report and the External Auditor's Annual Letter.

The outcome of this review is reported in the Annual Governance Statement.

The following details how the Council meets the core principles and the systems, policies and procedures it has in place to support this.

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
<p><b>Rationale:</b> Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved.</p> <p>In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Behaving with integrity</b></p> <ul style="list-style-type: none"> <li>• Developed a Code of Conduct for Members to ensure that high standards of conduct are maintained.</li> <li>• Established a procedure outlining arrangements for breaches of the Member Code of Conduct.</li> <li>• The Corporate Governance Group has an overall view of conduct issues with a Standards Sub Committee established and appointments made, which is called as and when required.</li> <li>• An Officer Code of Conduct that sets down standards of behaviour and conduct the Council expects of its employees. Reference is made to the Code on the Induction Checklist.</li> <li>• Standard decision making reporting format to ensure that all those responsible for taking decisions have the necessary information on which to do so.</li> <li>• An employee policy for acceptance of gifts and hospitality.</li> <li>• Registers of Members' interests and records of gifts and hospitality are published on the Council's website.</li> <li>• Members' declarations of interests are a standing item on all agendas. Minutes show declarations of interest were sought and appropriate declarations made.</li> <li>• Members appointed to represent the Council on Outside Bodies are expected to provide a report to Council on an annual basis.</li> <li>• A Corporate Complaints Policy is published on the Council's website.</li> <li>• A Whistleblowing Policy is in place.</li> <li>• Statement of Core Values and Behaviours available to staff and Members on the Council's intranet 'The Beehive'.</li> </ul> <p><b>Demonstrating strong commitment to ethical values</b></p> <ul style="list-style-type: none"> <li>• A Constitution which sets out delegations of the Cabinet, committees and senior officers, and the decision making process to be applied. It also emphasises that the Council will act within the law.</li> <li>• Terms of Reference that exists for all committees and decision making meetings.</li> <li>• Contract Procedure Rules emphasise the expectation for partners and contractors to act with integrity and in compliance with ethical standards expected by the Council.</li> <li>• Many Council staff are also subject to the ethics of their professional body.</li> </ul> <p><b>Respecting the rule of law</b></p>

	<ul style="list-style-type: none"> <li>• The Constitution identifies the Head of Governance as the Council's Monitoring Officer and sets out the role of the Monitoring Officer.</li> <li>• An Anti-Fraud &amp; Corruption Strategy which is supported by an Anti-Money Laundering Policy, Information Security Policy &amp; Codes of Practice and Whistleblowing Policy. There is a fraud hotline for employees and customers to report irregularity and fraud.</li> </ul>
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### Core Principle B: Ensuring openness and comprehensive stakeholder engagement

<p><b>Rationale:</b> Local government is run for the public good; organisations therefore should ensure openness in their activities.</p> <p>Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Openness</b></p> <ul style="list-style-type: none"> <li>• A Publication Scheme that describes the kinds of information available and provides guidance about how to access personal information and submit a Freedom of Information request. Publication Scheme and links are published on the website: <a href="#">Publication Scheme</a></li> <li>• Adoption of a standard reporting format in relation to committee reports.</li> <li>• A 'Corporate Implications' template is included in the standard report format which helps ensure that the decisions taken consider a range of potential impacts/risks. Where appropriate background papers are cited in the standard report format.</li> <li>• Agendas, reports and minutes are published on the Council's website. Meetings are open to the public unless in the case of exempt items.</li> <li>• Agendas include a set period for Public Question Time.</li> <li>• Dates for submitting, publishing and distributing timely reports are set and adhered to.</li> <li>• The Corporate Strategy sets out the priorities and strategic direction for the Council.</li> <li>• Web casts of Council and Cabinet meetings on the Council's website.</li> <li>• The Annual Statement of Accounts is published annually prior to external audit and post audit. <a href="#">Statement of Accounts</a></li> </ul> <p><b>Engaging comprehensively with institutional stakeholders</b></p> <ul style="list-style-type: none"> <li>• Adopted a Channel Strategy which sets out ways in which the Council will use a variety of channels to deliver services to, and interact with, customers.</li> <li>• The Council has signed a Local Compact for joint working with the voluntary and community sectors in the district.</li> </ul> <p><b>Engaging stakeholders effectively including individual citizens and service users</b></p> <ul style="list-style-type: none"> <li>• The Council seeks the views from individuals, organisations and businesses on a range of topics. The</li> </ul>
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	<p>Council has a People's Panel. Links to current consultations are published on the website: <a href="#">Consultations</a></p> <ul style="list-style-type: none"> <li>• Consultation activity is reviewed annually to evaluate how well each consultation exercise meets its planned objectives. Consultation across the Council is increasingly managed using a calendar of planned activities.</li> <li>• The Council has arrangements to engage with all sections of the community including hard to reach groups.</li> <li>• Use of social media to increase interaction and engagement with customers: Social Media Policy and links at <a href="#">Social Media</a></li> <li>• Satisfaction surveys are undertaken regularly both centrally and by services.</li> <li>• Contact publication – communicates the Council's vision and priorities and is published once per year and is sent to all households in the District.</li> <li>• e-mail newsletters incorporating news, information and events are sent on an ad hoc basis to those residents requesting this service.</li> </ul>
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### Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefit

<p><b>Rationale:</b> The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources.</p> <p>Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Defining Outcomes</b></p> <ul style="list-style-type: none"> <li>• The Corporate Strategy and Annual Plan set out the Council's vision and priorities together with its aims and actions.</li> <li>• Medium-Term Financial Strategy covering a rolling four-year period is agreed annually.</li> <li>• Annual Business Plans form a key part of delivering the Council's overall vision.</li> <li>• Management Board, Cabinet and the Performance Management Board receive performance monitoring reports at regular intervals.</li> </ul> <p><b>Sustainable economic, social and environmental benefits</b></p> <ul style="list-style-type: none"> <li>• Climate Local Strategy which sets out our objectives and a framework for local action on climate change and energy.</li> <li>• The Council declared, in July 2019, a "Climate Emergency" with an aim to make Braintree District Council activities, as far as practical, carbon neutral by 2030. A Climate Change working group was established to develop an action plan to ensure all Council functions and decision making is in line with the shift to carbon neutral by 2030.</li> <li>• A 'Corporate Implications' template is included in the standard report format which helps ensure that the decisions taken consider a range of potential impacts/risks.</li> </ul>
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	<p>Where appropriate background papers are cited in the standard report format.</p> <ul style="list-style-type: none"> <li>• Asset Management Plan – the Council has a wide range of land and property assets used in the delivery of services and to support the corporate priorities.</li> <li>• A business case framework is used for projects.</li> </ul>
<p><b>Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes</b></p>	
<p><b>Rationale:</b> Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action).</p> <p>Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved.</p> <p>They need robust decision making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Determining interventions</b></p> <ul style="list-style-type: none"> <li>• A financial planning process that determines level of resources to achieve Council priorities and outcomes and meet statutory duties.</li> <li>• The format of decision making reports to ensure that all relevant information is considered such as analysis of options, resource implications and consultation feedback. Options are clearly defined and analysed to ensure decisions are based on the best possible information.</li> </ul> <p><b>Planning interventions</b></p> <ul style="list-style-type: none"> <li>• Corporate Strategy covers four-year period. An Annual Plan details the agreed projects and initiatives to deliver each of the priorities of the Corporate Strategy in the forthcoming year, as well as details of how we plan to measure progress against these objectives</li> <li>• Business Plans for each service area, these include clear identification of objectives and targets, reflect Corporate Strategy priorities and include the identification of risks to meeting the objectives. They are updated annually and incorporate the financial plans for the year ahead for the service areas.</li> <li>• The Medium-Term Financial Strategy, Workforce Plan, Asset Management Plan and Capital Programme identify how resources are aligned to priorities.</li> <li>• Risks associated with partnership and joint working arrangements are identified and recorded in the risk register.</li> <li>• Financial management and reporting processes that enable regular and timely reporting to budget-holders, Management Board, Cabinet and the Performance Management Board.</li> <li>• Key performance indicators and key actions are determined annually and monitored via the Pentana Performance Management system.</li> <li>• Annual work programmes developed by the Community Development and the Partnership Development Boards.</li> </ul> <p><b>Optimising achievement of intended outcomes</b></p> <ul style="list-style-type: none"> <li>• The annual budget is prepared in line with agreed priorities and the Medium-Term Financial Strategy. The Council</li> </ul>

	publishes its Financial Strategy annually to set an indicative four year financial plan to fit the longer term strategic vision as well as a detailed one year budget. This is intended to include realistic estimates of revenue and capital – expenditure and income.
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## Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

<p><b>Rationale:</b> Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods.</p> <p>A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members.</p> <p>Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Developing the entity's capacity</b></p> <ul style="list-style-type: none"> <li>• The Council has a Workforce Development Plan including an action plan.</li> <li>• Mechanisms established for staff engagement, for example, staff focus group.</li> <li>• The Council actively promotes the benefits of partnerships and collaborative working to enhance capacity. Current examples include Payroll/HR system and procurement services.</li> </ul> <p><b>Developing the capability of the entity's leadership and other individuals</b></p> <ul style="list-style-type: none"> <li>• A Protocol on Member/Officer Relations that assists both Members and officers achieve good working relationships in the conduct of Council business.</li> <li>• A Scheme of Delegation that is reviewed in light of legal and organisational changes.</li> <li>• A Constitution that sets out financial management arrangements through the Financial Regulations and Contract Procedure Rules.</li> <li>• Annual Member Development programme is managed by a member Training &amp; Development Group. Members are updated on legal and policy changes etc. as required.</li> <li>• Mandatory Induction programmes for all employees.</li> <li>• Developed a scheme of key management competencies and expected values and behaviours which support the Council's core values.</li> <li>• Employee management framework which holds staff to account through performance reviews which identify training or development needs as required.</li> <li>• Apprenticeship Programme offering training, skills and experience in Local government.</li> <li>• Health and Safety policies designed to protect and enhance the welfare of staff are actively promoted and monitored.</li> </ul>
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**Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

<p><b>Rationale:</b> Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.</p> <p>Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.</p> <p>It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Managing risk</b></p> <ul style="list-style-type: none"> <li>• Risk management arrangements that are embedded across all service areas and help inform decision making.</li> <li>• The Council's Risk Management Policy requires that consideration of risk is embedded in all key management processes. These include policy and decision-making, service delivery planning, project and change management, revenue and capital budget management and partnership working.</li> <li>• Strategic risks are reviewed at least once per annum and are detailed in the Corporate Risk Register.</li> <li>• A Risk Register of operational risks is maintained by the Audit, Insurance and Fraud Manager and is reviewed annually with Heads of Service as part of the business planning process in February/March.</li> <li>• The Cabinet approves the Corporate Risk Register and the Corporate Governance Group oversees the effectiveness of risk management arrangements and provides assurance to the Council in this respect.</li> <li>• Management Action Plans are provided for those risks which have a high risk rating and include details of the responsible officer.</li> </ul> <p><b>Managing performance</b></p> <ul style="list-style-type: none"> <li>• Management Board, Cabinet and the Performance Management Board receive performance monitoring reports at regular intervals.</li> <li>• Key performance indicators and key actions are determined annually and monitored via the Pentana Performance Management system.</li> <li>• Reports and minutes and decisions under member consideration are published on the website and are available in hard copy in a variety of formats on request.</li> <li>• The decision-making process is scrutinised by the Performance Management Board which has the power to call-in decisions. Specific meetings of the Performance Management Board are held in November and then January for Members (in public) to scrutinise the proposed Budget and Medium-Term Financial Strategy.</li> <li>• Some policy development work is undertaken by two groups introduced in 2019/20: Community Development and Partnership Development Groups.</li> <li>• Agenda, minutes of scrutiny meetings and any associated reports with recommendations to the Cabinet are published on the Council's website.</li> <li>• Contract Procedure Rules and Financial Regulations set out the Council's arrangements and ensure that processes continue to operate consistently.</li> </ul>
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<p>repeated public commitment from those in authority.</p>	<ul style="list-style-type: none"> <li>• An effective internal audit service is resourced and maintained. Internal Audit prepares and delivers a risk based audit plan in line with international auditing standards which is kept under review to reflect changing priorities and emerging risks.</li> </ul> <p><b>Robust internal control</b></p> <ul style="list-style-type: none"> <li>• An annual report is produced by Internal Audit which provides an opinion on the Council's control environment, and a self-assessment of its arrangements against the public sector internal audit standards and CIPFA's guide to the role of the Head of Internal Audit.</li> <li>• Counter Fraud Strategy which is subject to review and is approved by the Corporate Governance Group.</li> <li>• Annual Governance Statement (AGS) that provides a summary of how the Council is meeting the principles of good governance. The AGS is subject to review by the Corporate Governance Group.</li> <li>• The Corporate Governance Group, which is independent of Cabinet, oversees the management of governance issues, internal controls and risk management reporting. Its performance is subject to annual self-assessment.</li> <li>• Corporate Governance Group's Terms of Reference are reviewed and revised to reflect professional bodies' expectations and best practice.</li> <li>• Training is provided to Corporate Governance Group Members on areas relevant to their role.</li> <li>• There are frameworks in place in relation to child and adult safeguarding.</li> <li>• The council is subject to External Audit and inspection regimes which require action plans that are assigned to officers.</li> </ul> <p><b>Managing data</b></p> <ul style="list-style-type: none"> <li>• The Council's Information Security Policy and Codes of Practice provide guidance on the arrangements that must be in place to ensure personal data is kept protected and secure.</li> <li>• The Corporate Governance Group receives detail of compliance with the Information Security policy in the Audit, Insurance and Fraud Manager's annual report.</li> <li>• The Data Quality Policy sets out the Council's approach to data quality in relation to non-financial performance data to ensure that high standards are clearly set, achieved and maintained. <a href="#">Data Quality Policy</a></li> <li>• Effective information sharing is undertaken in accordance with the General Data Protection Regulation.</li> <li>• Data subjects are informed why their personal information is being collected and how it will be processed (including when shared with other bodies) through the Council's overall Privacy Notices published on our website and individual Privacy Statements on forms, in booklets etc. <a href="#">Privacy Policy</a></li> </ul>
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	<ul style="list-style-type: none"> <li>• Information Sharing Agreements, are reviewed on a regular basis, are in place to document the sharing of information.</li> <li>• Data verification and validation processes are integrated within systems and processes.</li> <li>• Public Services Network (PSN) Code of Connection.</li> </ul> <p><b>Strong public financial management</b></p> <ul style="list-style-type: none"> <li>• Compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2015).</li> <li>• Contract Procedure Rules and Financial Regulations set out the Council's arrangements and ensure that processes continue to operate consistently.</li> <li>• Medium-Term Financial Strategy covering a four-year period reviewed and updated annually.</li> <li>• The financial position is reported quarterly to Cabinet and the Performance Management Board.</li> </ul>
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## Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

<p><b>Rationale:</b> Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner.</p> <p>Both external and internal audit contribute to effective accountability.</p>	<p><b>Braintree District Council's commitment to achieving good governance is demonstrated below:</b></p> <p><b>Implementing good practice in transparency</b></p> <ul style="list-style-type: none"> <li>• Agendas, reports and minutes are published on the Council's website.</li> <li>• Details of Council spending with suppliers, value in excess of £250, are published monthly on the Council's website. A register of the Council's contracts is also available on the Council's website.</li> <li>• Details of senior managers' remuneration and Member's allowances and expenses are published annually in the Council's Statement of Accounts. <a href="#">Statements of Accounts</a></li> </ul> <p><b>Implementing good practices in reporting</b></p> <ul style="list-style-type: none"> <li>• Annual Financial Statements are compiled, published to timetable and included on the Council's website.</li> <li>• Annual Governance Statement produced.</li> <li>• Standard template for committee reports requires an executive summary in addition to the detailed report.</li> </ul> <p><b>Assurance and effective accountability</b></p> <ul style="list-style-type: none"> <li>• The Annual Governance Statement sets out the Council's governance framework and the results of the annual review of the effectiveness of the Council's arrangements. Areas for improvement are included, as necessary.</li> <li>• An effective internal audit service is resourced and maintained. The Service has direct access to members and provides assurance on governance arrangements via an annual report containing an opinion on the Council's internal control arrangements.</li> </ul>
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## APPENDIX A

	<ul style="list-style-type: none"><li>• External Audit provides an annual opinion on the Council's financial statements and arrangements for securing Value for Money.</li><li>• The Council actively welcomes peer challenge, reviews and inspections from regulatory bodies.</li><li>• The respective roles of officers and associated responsibilities are set out in the Constitution.</li></ul>
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# Braintree District Council

## Annual Governance Statement 2019/20

### **1. Council responsibility for Good Governance**

Braintree District Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has 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 these overall responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the Council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement (AGS) reporting on the review with the Statement of Accounts.

### **2. The Council’s Governance Framework**

The Council’s governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and those activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

Key elements of the Council’s Governance Framework are:

- The **Council Constitution** which sets out how the Council operates and how it makes decisions. The Constitution details the process through which the Council is able to make decisions efficiently, transparently and accountably. The statutory Monitoring Officer undertakes a review of the Constitution annually to ensure the Council’s arrangements remain compliant with legislative requirements and is fit for purpose in supporting the Council’s Corporate Strategy.
- The Council **Corporate Strategy**, sets out the vision and priorities for the Braintree District for the four-year period 2016 to 2020 and was agreed by Full Council on 22<sup>nd</sup> February 2016. The Corporate Strategy for 2020 to 2024 was recommended for approval by the Cabinet on 9<sup>th</sup> March 2020 and was formally adopted by the Chief Executive as a delegated decision

under the urgency provisions on 8<sup>th</sup> April 2020 (a consequence of the cancellation of Full Council meeting scheduled for 20<sup>th</sup> April 2020 due to the Coronavirus pandemic). An Annual Plan details the agreed projects and initiatives to deliver each of the priorities of the Corporate Strategy in the forthcoming year, as well as details of how the Council plan to measure progress against these objectives.

- The **System of Internal Control** which is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- The **Local Code of Corporate Governance**, which sets out how the Council's strategies, policies, plans, procedures, processes, structures, attitudes and behaviours are in place to deliver good governance to all, as well as summarising the processes in place to support the delivery of strategic outcomes.

The Council's Local Code of Corporate Governance was approved by the Corporate Governance Group in April 2019 and is based on the guidance provided by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) "Delivering Good Governance in Local Government – a Framework" (April 2016). It is subject to annual review and the revisions will be considered for approval by the Governance Committee in July 2020.

The Governance Framework has been in place at Braintree District Council for the year ended 31<sup>st</sup> March 2020 and for the majority of the year was unaffected by the Coronavirus pandemic. However, Coronavirus has impacted on governance during March 2020 and has continued to have an impact during the period up to the date of publication. This AGS therefore reflects the impact on governance as a consequence of the Coronavirus.

The key components of the Local Code of Corporate Governance are:

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

- The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in the Council's Constitution, Schemes of Delegation and Financial Regulations which are regularly reviewed and revised where appropriate.
- Codes of Conduct are in place for elected members and officers to make sure that public business is conducted with fairness and integrity, which define the high ethical values and standards of behaviour expected.
- The Monitoring Officer is responsible for ensuring that the Council operates within the law and that decisions are administered correctly.
- Corporate complaints policy agreed and published on the Council's website.

## **B. Ensuring openness and comprehensive stakeholder engagement**

- Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. Unless confidential, decisions made by Council, the Executive (Cabinet/Cabinet Members) or other Committees are documented in the public domain.
- The Council has systems in place to ensure that relevant decisions taken by officers are published in accordance with legislative requirements.
- A standard decision-making report format is used to ensure that the decision maker is presented with all of the information necessary to inform the decision, including outcomes of consultation and issues identified in the 'Corporate Implications' template.
- The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with residents and service users.

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

- The Council sets out the vision and priorities for the Braintree District in its Corporate Strategy. The Strategy is based on: public opinion about what is important in the district; issues which Members know to be of importance; data and research into key issues which affect the quality of life; and issues of national importance which need to be implemented at a local level.
- The 'Corporate Implications' template used in the decision making process considers risks and impacts for individuals and communities; safeguarding; and other legal or governance matters to ensure that fair access to service is not adversely affected.
- The Council's Performance Management Framework.

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

- Corporate Strategy covers a four-year period. An Annual Plan details the agreed projects and initiatives to deliver each of the priorities of the Corporate Strategy in the forthcoming year, as well as details of how the Council plan to measure progress against these objectives.
- In determining how services and other courses of action should be planned and delivered the Council has well established engagement frameworks with internal and external stakeholders which is undertaken at a strategic, service and individual level.

- The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local residents as stated in the Council's Corporate Strategy, values and priorities.

#### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

- The Chief Executive (as the designated role of Head of Paid Service) is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.
- Annual Performance Reviews of all staff ensure performance is managed and development needs for each member of staff are identified and monitored. For the Chief Executive and Corporate Directors, performance reviews are carried out by a panel of Members which include the Leader and/or appropriate Cabinet members and the Chairman of the Performance Management Board.
- There is a Member Induction and Member Development programme in place which includes specialist training for Members with specific committee roles such as licensing and planning.

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

- The Council has a Risk Management Policy and approach including robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.
- The Chief Finance Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.
- The Council's system of internal financial control is based on a framework of Financial Regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.
- The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.
- A Medium-Term Financial Strategy and plans for revenue (4-year) and capital (4-year) based on corporate priorities are developed by the Cabinet and supported by the Management Board, and presented for approval by Council in February each year.
- Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a regular basis for monitoring and control purposes including the annual outturn.

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

- The Audit, Insurance and Fraud Manager provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards.
- The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies. The Corporate Governance Group is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.
- The Council's scrutiny arrangements are well established and provide challenge and review and promote service improvement.

### **3. Review of Effectiveness of the Governance Framework**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The review of effectiveness is informed by the work of the senior managers within the council who have responsibility for the development and maintenance of the governance environment, the audit manager's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

The key elements of the review of effectiveness are:

- a. Both in-year and year-end review processes have taken place. In-year review mechanisms include:
  - The Cabinet is responsible for monitoring overall financial performance and received comprehensive reports on a quarterly basis. Budgetary reports provided details of income and expenditure against profile together with a prediction of the financial position at the year-end. Key Performance Indicators and progress of projects are also included in the quarterly reports.
  - Report by the Corporate Director (Section 151 Officer) on the robustness of the budget and the adequacy of balances.
  - The work programme of the Performance Management Board included reviews of the Medium Term Financial Strategy and Budget Proposals for 2020/21 and a report on Local Plan Project and Risk Management.

- The work programmes of the two new Development Groups: the Community Group met on three occasions and commenced scrutiny reviews into vaccinations and community woodlands; and the Partnership Group met on four occasions and received the Annual Report of the Braintree District Community Safety Partnership 2018/19 and commenced a review into leisure provision across the District – access to sport.
- A small number of complaints were raised under the Member Code of Conduct and these have been reviewed in line with the Council's processes by the Monitoring Officer. The issues raised are particular to their circumstances and do not reflect a wider or systemic issue within the Council and are not regarded as significant governance issues within the meaning of the Annual Governance Statement. There were no complaints referred to the Standards Sub Committee during the year. One complaint was referred for the investigation stage and will be considered further in accordance the Council's processes once that investigation has been concluded. The 2018/19 Annual Governance Statement indicated that there was an investigation being undertaken at that time. This Investigation has been conducted and no further action was required due to the resignation of the complaint subject.
- The Corporate Governance Group provided independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Group met three times during the year and received regular reports on risk management, internal control and governance matters.
- The Council's Internal Audit Charter, as required under the Public Sector Internal Audit Standards, was reviewed and updated by the Corporate Governance Group on 25<sup>th</sup> July 2019.
- Internal Audit, as an independent and objective assurance service to the management of the Council, completed a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangements. The effectiveness of Internal Audit and its conformance with the Public Sector Internal Audit Standards was externally assessed during 2017/18. The initial outcome was that it partially conforms to the Standards and an action plan was agreed to deliver improvement and achieve conformance. Significant progress against the action plan has been made and reported to the Corporate Governance Group.
- The external auditors reviewed the Council's arrangements for:
  - Preparing accounts in compliance with statutory and other relevant requirements
  - Ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice
  - Managing performance to secure economy, efficiency and effectiveness in the use of resources
 The results of the review, which included: an unqualified true and fair opinion of the financial statements; and satisfactory conclusion with the Annual Governance Statement, Whole of Government Accounts and Value for Money arrangements for 2018/19, were presented to the Corporate Governance Group on 25<sup>th</sup> July 2019.
- A positive Annual Audit Letter for 2018/19 was received from the External Auditor, BDO LLP, with no significant issues to be raised with Members, key stakeholders or members of the public.



- Members reviewed the Council's strategic risk register in November 2019. The strategic risk register together with details of Management Board's action plans to manage those strategic risks which have a high risk rating was agreed by Cabinet on 10<sup>th</sup> February 2020.
- The Action Plan from the Local Government Association (LGA) Cyber Security Stocktake 2018 was implemented with all staff undergoing Cyber-Security Training; Management Board and Portfolio Holder receiving quarterly Cyber Security updates and a Corporate Director has been appointed as Cyber Security Representative on Management Board.
- External inspections during the year included:
  - An external audit of the Council's undertakings and declarations to ensure compliance with its Operators Licence was undertaken by the Freight Transport Association in September 2019. The outcome of the audit was an action plan to address one area which was judged to be unsatisfactory and to deliver two minor improvements (these three areas were out of a total of thirty reviewed under the audit). All three areas requiring improvement were addressed and resolved following the audit.
  - The Council's Cyber Security capability was assessed by an external certificated company, Hytec. The Council successfully obtained its Cyber Essentials grading.
  - PSN (Public Service Network) compliant for 2020/21.
  - The SOCITM website measure focused on accessibility, the Council received a score of 6 out of 10 (the highest score awarded was 7, to a small number of authorities).
- Local Government and Social Care Ombudsman: in 2019/20 the Ombudsman received a total of 8 matters, out of which 4 were investigated as complaints. The Ombudsman upheld 1 complaint with a finding of maladministration and injustice in favour of the Complainant. The Ombudsman made some recommendations to the Council which sought to remedy the issues and the Council has fully complied with these to the satisfaction Ombudsman. These included conducting a review of the Council's service process, which resulted in a revised documented process for Officers, a review of the Complainants' case via the service process and to take any necessary action identified, for the Council to issue an apology to the Complainants and pay financial compensation of £200.

b. The year-end review of the governance arrangements and the control environment included:

- Signed assurances from Senior Managers, who report to a member of the Management Board, that key elements of the control framework were in place during the year in their areas of responsibility.
- The Audit, Insurance and Fraud Manager's Annual Report for 2019/20 was considered by the Corporate Governance Group on 23<sup>rd</sup> July 2020. The conclusion was that the Council's systems for internal control, risk management and governance as at 31<sup>st</sup> March 2020 generally provide adequate assurance that key business processes and financial systems accord with proper practice, although some improvements are required to address areas of weakness and non-compliance which may put achievement of objectives at risk.

- The Council's Local Code of Corporate Governance has been reviewed and updated for 2020/21 by the Corporate Governance Group on 23<sup>rd</sup> July 2020.

Last year's Annual Governance Statement identified no areas for improvement/development.

#### **4. Assurance Statement**

The review, as detailed above, provides good overall assurance of the council's system of internal control and that the arrangements are fit for purpose in accordance with the governance framework.

Since March 2020, the Council has been impacted by the coronavirus pandemic, issues of assurance are raised in the 'Governance issues' section and have been highlighted in the 'Areas of Significant Change' section. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have changed the accounting timetable, extending the deadline for the draft accounts to 31<sup>st</sup> August 2020 and the final audited accounts to 30<sup>th</sup> November 2020. However, the Council intends to work to a revised timetable of 30<sup>th</sup> June 2020 and 31<sup>st</sup> October 2020 respectively.

#### **5. Governance Issues**

Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed, or are included, in action plans for the relevant managers.

There has been a significant impact on Council services of the coronavirus pandemic from March 2020. The Council activated its Emergency Response Plan and the Councils Gold and Silver emergency command structure to coordinate a response to ensure that resources were prioritised to those most in need.

And despite the challenges, the Council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The Council's strong collaborative approach has been effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors. The response to the crisis has added assurance to the effectiveness of the Council's business continuity plans, communications strategy and governance arrangements.

The risks moving forward have been detailed in the Areas of Significant Change.

Focus will be placed on the following significant governance issues during 2020/21:

- a) The nature of the council's business activities means that there are ongoing information governance risks, including cyber security and IT network security, which continues to require careful management. The continuing need to improve services and enhance customer access to those services means that integration, optimisation and security of the use of data held and managed by Council departments continues to be of paramount importance.
- b) The overriding scale, complexity and challenge of the Council's investment programme demands management rigour in ensuring continuous, strong and effective governance.

## **6. Areas of Significant Change**

The Council also faces a number of areas of significant change that will require consideration and action as appropriate in 2020/21 and the medium-term. Significant issues identified include:

### **Impact of Coronavirus pandemic on Council services**

- a) The Council is adhering and responding at pace to government guidance in response to the pandemic. Priorities have necessarily been changed to focus on the need to distribute emergency funding to vulnerable residents and to businesses and to support essential services. Business as usual has changed to accommodate this but key processes and functions have been maintained. An ongoing assessment of the impact of the coronavirus pandemic on Council services and Council systems will be needed to ensure good governance.
- b) The Medium-Term Financial Strategy 2020 to 2024 will be updated in the light of the impact of the pandemic.
- c) Current analysis suggests that the resources announced so far from central government do not cover the full costs of the pandemic. The Council needs to ensure that the additional spending and loss of income (particularly from council tax and business rates) are fully recovered from central government. The Council is maintaining a log of all spending commitments and income losses relating to the pandemic to enable full accountability. A full review of the impact of the coronavirus will be ongoing in 2020/21.
- d) There are early indications that there will be financial stress on the leisure management services contract that will need to be assessed in the medium and longer term.
- e) The Coronavirus Act (2020) and the Local Authorities and Police and Crime Panels (Coronavirus)(flexibility of Local Authority and Police and crime Panel Meetings)(England and Wales) Regulations 2020, allows the Council to make

provisions for remote attendance at and remote access to, council meetings held on or before 7 May 2021. This enables the Council to conduct meetings and take decisions through the use of various virtual platforms and ensures that decisions can still be made to maintain good governance, principles of openness and accountability. The Council has adapted its approach by assessing which decisions can be delayed and re-scheduled and which decisions need to be made at pace to deal with the pandemic. Virtual meetings have now been instigated to ensure transparency and good governance prevails and allows access to the public and press via the Council's YouTube Channel.

- f) Demands on IT systems and staff will be considerable as most office based staff will continue to work remotely.

### **Other significant risks**

- g) A highlighted risk last year was the continued financial uncertainty regarding government funding of local government beyond 2020/21. This has since been over-ridden by the financial challenge of funding the effects of the coronavirus pandemic. The government have delayed the review of relative needs and resource and the 75% business rates retention will no longer be implemented in 2021/22 to allow councils to focus on meeting the immediate public health challenge posed by the pandemic. However there is still a risk due to the uncertainty of the government funding of local government which creates a challenge in terms of budget setting and medium term financial planning.
- h) There is a high level of uncertainty about the implications of Britain leaving the European Union. The government have not delayed the Brexit deadline of 31<sup>st</sup> December 2020, but the current priorities have changed in response to the pandemic and there is some doubt as to whether the deadline can be met or whether an extension will be necessary. Again, there are a number of possible scenarios for how and when the country will depart.

Based upon the assurance systems in place and the council's approach to continuous learning through external and internal review, there are no significant governance issues that have arisen during the year. Notwithstanding inherent risks facing local government and strategic risks that have been identified and reviewed throughout the year, the Council's governance arrangements provide robust mechanisms to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

## **7. Conclusion**

The Council has been impacted by the coronavirus pandemic. Governance arrangements have been tested and have been found to be robust in 2019/20, whilst recognising that the pandemic will bring substantial risks to the Council in 2020/21. There will be an ongoing review of the financial impact as well as the impact on procedures and processes relating to the emergency.

The Council is satisfied that appropriate governance arrangements are in place and that the Corporate Strategy and Medium-Term Financial Strategy will continue to be updated to adapt to the new situation. The Council propose over the coming year to take steps to address the matters identified above to further enhance our governance arrangements in these challenging times.

Graham Butland  
Leader of the Council

Andy Wright  
Chief Executive

Treasury Management Annual Report 2019-20		Agenda No: 13
<b>Portfolio</b>	<b>Finance and Performance</b>	
<b>Corporate Outcome:</b>	<b>A high performing organisation that delivers excellent and value for money services</b> <b>Delivering better outcomes for residents and businesses and reducing costs to taxpayers</b>	
<b>Report presented by:</b>	<b>Phil Myers, Financial Services Manager</b>	
<b>Report prepared by:</b>	<b>Phil Myers, Financial Services Manager</b>	
<b>Background Papers:</b>	<b>Public Report</b>	
Treasury Management Strategy Statement 2019/20 approved by Cabinet on 11 <sup>th</sup> February 2019 and Full Council 25 <sup>th</sup> February 2019  <a href="#"><u>Council Budget and Council Tax 2019-20 and Medium Term Financial Strategy 2019-20 to 2022-23</u></a>		<b>Key Decision: No</b>
<b>Executive Summary:</b>		
<b>1. <u>Introduction</u></b>		
1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's <i>Treasury Management in the Public Services: Code of Practice</i> (the CIPFA Code) which requires the Council to approve a treasury management strategy prior to the commencement of the financial year; receive at least one mid-year report; and then receive an annual report after the financial year-end.  1.2. The Council's Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Full Council on 25 <sup>th</sup> February 2019 as part of the overall Budget and Council Tax setting for 2019/20. A mid-year report was considered by the Corporate Governance Group on 24 <sup>th</sup> October 2019 and subsequently by the Cabinet on 18 December 2019.		
<b>2. <u>Treasury Management Strategy Statement (TMSS) 2019/20</u></b>		
2.1 The TMSS was based on the following presumptions: <ul style="list-style-type: none"> <li>A forecast spend on the capital programme of around £30m, funded by a combination of £11m of own resources and the balance from a mixture of internal and external borrowing, this borrowing being for projects under the District Investment Programme.</li> </ul>		

- The availability of cash balances for investment – the assumption was that these would average around £41m comprising core cash of circa £30million and in-year cash flows of £11m.
- Maintaining the Council's approach to risk by diversification of its investments including retaining longer-term investments to counter the risks associated with a prolonged period of low interest rates

2.2. These assumptions were subsequently updated in the Mid-Year report mainly to reflect changes in the spending profile for projects within the District Investment programme.

### **3. External Context**

3.1. The report includes an economic and market commentary of the 2019/20 financial year, provided by the Council's treasury management advisors, Arlingclose attached as **Appendix A**.

### **4. Capital Expenditure and Financing**

4.1. The Council's capital expenditure and financing have a significant impact on both the levels of borrowing required and cash balances available for investment.

4.2. Actual capital spend in the year was £6.999m which was much lower than originally planned when the TMSS was approved, and also less than that projected at the mid-year stage. The main areas where spending was lower than expected was for projects within the District Investment programme, particularly the Braintree Town Centre regeneration scheme, and Horizon 120. However, both of these projects have now entered phases of development which will mean significant spend is incurred during 2020/21. The general capital programme, comprising housing related initiatives and wider service projects was also under spent against profile. The amount of borrowing required was £1.333m of internal borrowing for the Horizon 120 project.

4.3. Further details of the outcomes from the Council's capital expenditure in 2019/20 can be found in the Annual Performance Report which was considered by Cabinet at their meeting on 13<sup>th</sup> July 2020.

4.4. Capital expenditure and the extent to which this has been financed from either revenue or capital resources is reflected in the Capital Financing Requirement or CFR, which is derived from the Council's Balance Sheet. The CFR can therefore be considered a proxy indicator as to the amount of external borrowing the Council could reasonably justify as being incurred to meet past capital expenditure; however, actual borrowing could be different.

4.5. The report shows that at the end of the year the CFR was £12.803m, compared to borrowing and finance lease liabilities totalling £8.180m. The difference of £4.623m represents the amount of internal borrowing that has been used to fund

capital expenditure by drawing down on the Council's own cash reserves. Whilst internal borrowing is currently a cost effective alternative to external borrowing, this can only be regarded as temporary as at some point in the future the cash used is likely to be required for its original purpose. The main reason for the current level of internal borrowing relates to the acquisition of land in 2019 and subsequent development related expenditure for the proposed employment site at Horizon 120. This project is expected to generate capital income which will then be used to repay this borrowing and hence its use is appropriate for the short-medium term funding required.

## **5. Borrowing and Other Debt**

- 5.1. Borrowing which is outstanding comprises two £3m Lender Option, Borrower Option (LOBO) loans, which were originally taken out in 2002. These loans give the lender the option to propose at six-monthly intervals a change in the interest rate being charged, and which if exercised, gives the Council the right to repay the loan(s) in full at no additional cost. The continuing low interest rate environment means that to date the lender has not exercised their options, and any early repayment has previously been judged not to be cost effective on the terms proposed.
- 5.2. Outstanding finance lease liabilities are a form of borrowing incurred in previous years to acquire use of property and vehicles repaid from annual revenue repayments.
- 5.3. The Council's medium term plans forecast an increased need to borrow for its District Investment programme. Analysis undertaken during the year on the potential "cost of carry" did not indicate that borrowing in advance of this need would be cost effective. However, this position remains under review taking into account interest rate forecasts and the Council's developing investment programme.

## **6. Investment Activity**

- 6.1. Usable reserves and working capital represent the underlying resources available for investment. In addition, the extent to which the Council's borrowing differs from its CFR will add/ detract from cash balances, and in-year timing differences between income received and expenditure incurred (working capital) will also effect the amount available to invest. During the year the Council's investment balances averaged £63.640m, and ranged between £50.187m and £73.265m. These balances were higher than originally anticipated due mainly to the reduced level of spend on capital investment.
- 6.2. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its



investments before seeking the highest rate of return, or yield. Consequently, the Council's objective when investing money has been to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low returns.

- 6.3. In furtherance of these objectives, and given the continuing risk and below inflation returns from short-term unsecured bank investments, the amount invested in long-term pooled funds was increased by adding a further £1m to the Kames Diversified Income Fund, taking the total invested in pooled funds to £19m at 31<sup>st</sup> March 2020. These investments continue to be made on the basis that, provided they are held for the medium-long term, they would offer enhanced returns whilst recognising there could be short-term volatility in market pricing. The Council holds distributing share classes in these funds in order to receive regular dividend income.
- 6.4. An increase in the cost of borrowing to local authorities through the Public Works Loan Board in October 2019, saw an increased level of activity in the local to local market, as authorities with borrowing requirement sought alternatives, whilst offering potential investors returns that exceeded those available in the market. Consequently, the level of loans to local authorities increased in the Council's portfolio with amounts lent rising from £6m at the end of March 2019 to £13m at the end of March 2020. A recent credit update issued by Arlingclose in the wake of the coronavirus pandemic and its potential impact on the finances of local authorities concluded that they remained comfortable with clients investing with other UK local authorities for periods of up to 2 years, subject to clients setting appropriate counterparty limits and diversifying large exposures widely over different local authorities.
- 6.5. At 31<sup>st</sup> March 2020, the total market valuation (fair value) of the Council's pooled funds was £16.744m, representing an unrealised loss of £2.256m on the amounts invested. This change in market valuation was most prominent in equity funds and in particular those funds exposed to UK equities, following significant volatility across global financial markets due to the outbreak of the coronavirus pandemic in the last quarter of the year. Whilst statutory regulations mean that this loss does not have an immediate impact on the General Fund balances, nevertheless, the drop in value does represent a potential future risk until such time markets recover.
- 6.6. With the recent sharp fall in economic activity and the uncertainty this created in the property market, the Council was informed in late March that dealings in the CCLA Property fund would be suspended until further notice. This was in line with the rules of the Financial Conduct Authority which requires funds to take action where there is material uncertainty over pricing of over 20% of assets held. This action was not unique to this fund. The position continues to be kept under review in conjunction with Arlingclose.

6.7. As a client of Arlingclose, the Council receives quarterly benchmarking information which is summarised in the report. This shows that the Council's position compared favourably on a number of indicators, particularly in relation to the credit quality of internally managed investments. Income Return was higher; however, Total Return was impacted by the marked drop in financial markets in the final quarter of the year. This was also reflected in the measure of Strategic Fund Volatility where the Council has above average exposure to these types of funds, and particularly UK equity funds.

## **7. Financial Implications**

7.1. Interest paid on borrowing amounted to £283,103, at an average rate of 4.7%. Further interest of £110,446 was paid on finance leases.

7.2. Total investment income for the year was £1,280,973 (equivalent to an overall return of 2.01%), and which was £250,014 more than budget due to a combination of higher cash balances and increased market interest rates. Within this overall performance, dividend income from long-term pooled funds was £922,622, a 4.98% return, whereas short-term investments contributed £358,351 of interest which equated to a return of 0.79%.

7.3. A treasury management reserve is maintained to aid management of the potential financial risks from treasury activities. In light of the heightened risks over the level of future investment income, the Cabinet Member for Finance and Performance Management agreed as part of the budget carry forward process to increase the reserve by the amount of income overachieved against budget in 2019/20. This meant the balance on the reserve at 31<sup>st</sup> March 2020 was £1,217,413.

## **8. Other Non-Treasury Investments and Loans**

8.1. Although not classed as treasury management activities, the CIPFA Code requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration reasons as well as commercial investments which are made mainly solely for financial reasons. The Council holds direct property investments with a market value at 31<sup>st</sup> March 2020 of £37.246m comprising: industrial land and units; shops; offices; and other commercial property. Properties are leased to third parties generating rental income for the Council. Net rental income was £2.233m, representing a return of 6.1% on the value of assets.

8.2. The overall market value of investment property increased by £0.983m, due mainly to rent reviews and other changes to lease terms resulting in improved yields. This increase in value is caveated by the uncertainties surrounding property valuations in the current economic climate.

8.3. The Council also has a number of loans which have been made for service reasons. At 31<sup>st</sup> March 2020, the amount outstanding on these was £54,724. During the year loans totalling £246,660 were repaid.

## **9. Compliance Report**

9.1. The Corporate Director (Finance) can confirm that all treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of Practice and the Council's approved TMSS. Compliance with debt and investment limits is demonstrated in the main report through a number of indicators.

## **10. Treasury Management Indicators**

10.1. The Council measures and manages its exposures to treasury management risks using a number of indicators. The report confirms that activity during the year was contained within the relevant limits.

## **11. Treasury Management Advisors**

11.1. The Council continued to employ Arlingclose as its treasury management advisors. Regular communications and updates on related matters have been received by officers, and Arlingclose attended meetings of the Strategic Investment Programme Group held during the year.

### **Recommended Decision:**

To recommend to Cabinet acceptance of the Treasury Management Annual Report 2019/20 prior to its submission to Full Council.

### **Purpose of Decision:**

The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services, which requires that the Council receives an annual report on the treasury management function. This report is to be considered first by the Corporate Governance Group in order to exercise its responsibility for scrutiny over treasury management activities. The report will then be considered by Cabinet before submission to Full Council with the benefit of any proposed changes and/ or comments of the Corporate Governance Group.

**Any Corporate implications in relation to the following should be explained in detail.**

<b>Financial:</b>	No new financial implications arise out of this report which is a report on treasury management activities in the 2019/20 financial year. The financial implications of these activities are reflected in the Council's budgetary outturn and Statement of Accounts.
<b>Legal:</b>	The Council's treasury management activities are subject to regulation by a number of professional codes, underpinned by statutory regulations and advice. There are no new legal implications from the report, although the report does contain details of changes to the regulatory framework.
<b>Safeguarding:</b>	None.
<b>Equalities/Diversity:</b>	None.
<b>Customer Impact:</b>	None.
<b>Environment and Climate Change:</b>	None.
<b>Consultation/Community Engagement:</b>	None.
<b>Risks:</b>	No new risks introduced. The report details activities that have been undertaken to manage the inherent risks within the treasury management function.
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<b>Designation:</b>	Financial Services Manager
<b>Ext. No:</b>	2810
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## **Treasury Management Annual Report 2019/20**

### **1. Introduction**

- 1.1. The Council has 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 Council to approve a treasury management strategy prior to the commencement of the financial year; receive at least one mid-year report; and then receive an annual report after the financial year-end.
- 1.2. The Council's Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Full Council on 25 February 2019 as part of the overall Budget and Council Tax setting for 2019/20. A mid-year report was considered by the Corporate Governance Group at its meeting on 24 October 2019, and subsequently by the Cabinet on 18 December 2019.
- 1.3. The Council invests substantial sums of money and continues to hold legacy borrowing and is therefore exposed to a range of financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management activities.

### **2. Treasury Management Strategy Statement (TMSS) 2019/20**

- 2.1. The original TMSS approved for the year was based on the following assumptions:
  - A forecast spend on the capital programme of around £30m, funded by a combination of £11m of own resources and the balance from a mixture of internal and external borrowing, this borrowing being for projects under the District Investment Programme.
  - The availability of cash balances for investment – the assumption was that these would average around £41m comprising core cash of circa £30million and in-year cash flows of £11m.
  - Maintaining the Council's approach to risk by diversification of its investments including retaining longer-term investments to counter the risks associated with a prolonged period of low interest rates.
- 2.2. These assumptions were subsequently updated in the Mid-Year report mainly to reflect changes in the spending profile for projects within the District Investment programme.

### 3. External Context

3.1. A brief economic and market commentary of the 2019/20 financial year, provided by the Council's treasury management advisors, Arlingclose, is attached at **Appendix A**.

### 4. Capital Expenditure and Financing

4.1. The Council's capital expenditure and financing have a significant impact on both the levels of borrowing required and cash balances available for investment.

4.2. The following table shows the position as originally estimated in the TMSS, alongside the updated forecast in the Mid-Year report, and then the final outturn for the year:

<b>Table 1: Capital Expenditure &amp; Financing 2019/20</b>			
	<b>TMSS £000</b>	<b>Forecast<sup>1</sup> £000</b>	<b>Actual £000</b>
Capital programme	3,943	4,131	2,563
District Investment Programme	26,398	7,472	4,436
<b>Total Expenditure</b>	<b>30,341</b>	<b>11,603</b>	<b>6,999</b>
<i>Funded by:</i>			
Capital receipts	(2,740)	(2,703)	(1,004)
District Investment Strategy reserve	(4,528)	(1,454)	(1,670)
Better Care Funding	(1,122)	(1,001)	(843)
Other Grants & Contributions	(1,253)	(1,528)	(1,493)
Revenue and reserves	(2,011)	(1,497)	(656)
External borrowing	(12,157)	0	0
Internal borrowing	(6,530)	(3,420)	(1,333)
<b>Total Finance</b>	<b>(30,341)</b>	<b>(11,603)</b>	<b>(6,999)</b>

<sup>1</sup> As per Mid-Year report

4.3. The above table shows that actual capital spend for 2019/20 was much lower than originally planned. The main reason for this lower spend related largely to projects within the District Investment Programme, particularly the Braintree Town Centre regeneration scheme, and Horizon 120. However, both of these projects have now entered phases of development which will result in significant expenditure being incurred during 2020/21. The general capital programme, comprising housing related initiatives and wider service projects was also under spent against profile. The amount of borrowing required in the year was £1.333m of internal borrowing for the Horizon 120 project.

- 4.4. Further details of the outcomes from the Council's capital expenditure in 2019/20 can be found in the Annual Performance Report which was considered by Cabinet at their meeting on 13 July 2020.
- 4.5. Capital expenditure and how this has been financed is reflected in a balance sheet derived measure known as the Capital Financing Requirement or CFR. The CFR indicates the extent to which spending on capital has yet to be financed from the Council's own resources, including, where required, amounts charged annually to the General Fund revenue account in the form of Minimum Revenue Provision (or MRP). The CFR can therefore be considered a proxy for the amount of external borrowing the Council could justify as being incurred to meet past capital expenditure; however, actual borrowing could be different.
- 4.6. The following table shows the movement in the CFR for the year, compared to that assumed in the TMSS and as forecast in the mid-year report:

<b>Table 2: Capital Financing Requirement (CFR) 2019/20</b>			
	<b>TMSS £000</b>	<b>Forecast £000</b>	<b>Actual £000</b>
CFR at start of the year	12,366	12,215	12,215
Increase due to internal borrowing	18,687	3,420	1,333
Mortgage repayment	-	-	(47)
Minimum Revenue Provision	(382)	(379)	(379)
Finance leases annual principal	(308)	(305)	(319)
<b>Net change in CFR</b>	<b>17,997</b>	<b>2,736</b>	<b>588</b>
<b>CFR at end of the year</b>	<b>30,363</b>	<b>14,951</b>	<b>12,803</b>

- 4.7. The lower capital spend in the year meant that the CFR at the end of the year was significantly less than was originally anticipated.

## **5. Borrowing and Other Debt**

- 5.1. The following table shows the amount of borrowing and other debt and how this has changed over the year:

<b>Table 3: Borrowing and Other Long-Term Liabilities</b>			
	<b>Borrowing £000</b>	<b>Finance Leases £000</b>	<b>Total £000</b>
Amounts owed 1 April 2019	6,000	2,499	8,499
Additions	-	-	-
Repayments	-	(319)	(319)
<b>Amounts owed 31 March 2020</b>	<b>6,000</b>	<b>2,180</b>	<b>8,180</b>

5.2. Borrowing comprises two £3m Lender Option, Borrower Option (LOBO) loans, which were originally taken out in 2002, where the lender has the option to propose a change in the interest rate at six-monthly intervals, at which point the Council then has the option to either accept the new rate or to repay the loan(s) at no additional cost. During the year the lender did not exercise their option.

5.3. Finance leases are arrangements which take the form of borrowing where interest is paid and the liability is extinguished by annual revenue repayments. The majority of the amount outstanding relates to a long-term lease for a property asset, with the remainder being financing for operational vehicles.

5.4. The following table compares the CFR with the level of current external borrowing:

<b>Table 4: CFR compared to external borrowing</b>		
	<b>31-Mar-19 £000</b>	<b>31-Mar-20 £000</b>
CFR at the end of year	12,215	12,803
Less finance leases	2,499	2,180
Borrowing CFR	9,716	10,623
Less external borrowing	6,000	6,000
<b>Internal borrowing</b>	<b>3,716</b>	<b>4,623</b>

5.5. The table above shows that at the end of March 2020, the Council's external borrowing was lower than its CFR (as was the case at 31<sup>st</sup> March 2019). This reflects the extent to which the Council has internalised its borrowing requirement i.e. used its own cash resources instead of increasing its external borrowing. Whilst internal borrowing is currently a cost effective alternative to external borrowing, this can only be regarded as temporary as at some point in the future the cash used is likely to be required for its original purpose. The main reason for the current level of internal borrowing relates to the acquisition of land in 2019 and subsequent development related expenditure



at Horizon 120. This project is expected to generate capital income which will then be used to repay this borrowing and hence its use is appropriate for the short-medium term funding required.

- 5.6. Whilst the Council's medium term plans forecasts an increase in its borrowing requirements, analysis undertaken during the year did not indicate that borrowing in advance of this need would be cost effective, due to the net "cost of carry". However, this position remains under review taking into account interest rate forecasts and the Council's developing investment programme.

## 6. Investment Activity

- 6.1. During the year the Council's investment balances averaged £63.640m, and ranged between £50.187m and £73.265m. These balances were higher than originally anticipated due mainly to the reduced level of capital expenditure. The year-end investment position and year-on-year change is shown in the table below:

<b>Table 5: Treasury Management Investment Activity</b>						
	<b>31-Mar-19 Balance £000</b>	<b>2019/20 Movement</b>		<b>31-Mar-20 Balance £000</b>	<b>31-Mar-20 Rate %</b>	<b>31-Mar-20 WAM<sup>1</sup> days</b>
		<b>Made £000</b>	<b>Matured £000</b>			
<b>Long-Term Investments</b>						
Equity funds	13,000	-	-	13,000	5.14%	T+3/4
Diversified funds	2,000	1,000	-	3,000	4.68%	T+3
Property fund	3,000	-	-	3,000	4.54%	1mth <sup>2</sup>
<b>Sub-Total Long-Term</b>	<b>18,000</b>	<b>1,000</b>	<b>-</b>	<b>19,000</b>	<b>4.98%</b>	
<b>Short-Term Investments</b>						
UK Banks & Building Societies	6,000	6,000	(12,000)	-	-	-
Non UK Banks	3,000	3,000	(6,000)	-	-	-
Other Local Authorities	6,000	20,000	(13,000)	13,000	0.96%	101
Debt Management Office (UK Govt)	-	54,000	(51,500)	2,500	0.05%	1
Money Market Funds – LVNAV	8,000	41,500	(35,500)	14,000	0.43%	On call
Money Market Funds – VNAV	4,000	-	-	4,000	0.76%	T+2
<b>Sub-Total Short-Term</b>	<b>27,000</b>	<b>124,500</b>	<b>(118,000)</b>	<b>33,500</b>	<b>0.65%</b>	
<b>Long and Short-Term Investments</b>	<b>45,000</b>	<b>125,500</b>	<b>(118,000)</b>	<b>52,500</b>	<b>1.80%</b>	
Lloyds Bank current account	1,527			(191)		
<b>Total Investments</b>	<b>46,527</b>			<b>52,309</b>		

<sup>1</sup> Weighted Average days to Maturity. Where "T+" is stated this means settlement is x no. of days following the Transaction Date

<sup>2</sup> Units normally redeemable on each Valuation Date (i.e. end of each month) - dealing currently suspended

- 6.2. Usable reserves and working capital represent the underlying resources that are available for investment. As highlighted in paragraph 5.4 the Council is internally borrowing for capital purposes which has the effect of reducing cash available for treasury management investment. In-year cash flows typically result in cash balances peaking around Sept/ Oct before then reducing back to the final closing position. The following table shows the main sources of cash that is represented in the investment balances at the 31<sup>st</sup> March:

<b>Table 6: Source of Cash Balances for Investment</b>		
	<b>31-Mar-19</b>	<b>31-Mar-20</b>
	<b>£000</b>	<b>£000</b>
General Fund unallocated balance	5,787	6,882
Earmarked reserves	22,625	21,931
Capital receipts	15,843	18,445
Former CHIP Fund monies	3,102	1,933
Other capital grants and contributions	3,159	4,665
Collection Fund balances and provision	6,034	7,806
Working capital	-6,307	-4,730
<b>Usable reserves and working capital</b>	<b>50,243</b>	<b>56,932</b>
Difference between CFR and actual borrowing	-3,716	-4,623
<b>Cash balances for Investment</b>	<b>46,527</b>	<b>52,309</b>

6.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Consequently, the Council's objective when investing money has been to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and also the risk of receiving unsuitably low investment income.

6.4. In furtherance of these objectives, and given the continuing risk and low returns from short-term unsecured bank deposits, the amount invested in long-term pooled funds was increased by £1m with this being added to the Kames Diversified Income Fund. This took the total amount invested in long-term pooled funds to £19m at 31<sup>st</sup> March 2020. These investments have been made on the basis that, if held for the medium-long term, they would offer enhanced returns whilst recognising there could be short-term volatility in market pricing. The Council holds distributing share classes in order to receive regular income.

6.5. An increase in the cost of borrowing to local authorities through the Public Works Loan Board in October 2019, saw an increased level of activity in the local to local market, as authorities with borrowing requirement sought alternatives, whilst offering potential investors returns that exceeded those available in the market. Consequently, the level of loans to local authorities increased in the Council's portfolio with amounts lent rising from £6m at the end of March 2019 to £13m at the end of March 2020. A recent credit update issued by Arlingclose in the wake of the coronavirus pandemic and its potential impact on the finances of local authorities concluded that they remained comfortable with clients investing with other UK local authorities for periods of up to 2 years, subject to clients setting appropriate counterparty limits and diversifying large exposures widely over different local authorities.

6.6. At the 31<sup>st</sup> March 2020, the total market valuation (fair value) of the Council's pooled funds was £16.744m, representing an unrealised loss of £2.256m on the amounts invested. This change in market valuation was most prominent in equity funds and in particular those funds exposed to UK equities, following significant volatility across global financial markets due to the outbreak of the coronavirus pandemic in the last quarter of the year.

6.7. The following table shows the position for each of the Council's long-term pooled fund investments:

<b>Table 7: Long-Term Pooled Funds at 31 March 2020</b>		
	<b><u>Invested</u></b>	<b><u>Fair Value</u></b>
	<b>£000</b>	<b>£000</b>
<b>Schroder UK Income Maximiser</b> Seeks to provide income and capital growth with target income of 7% p.a. by investing in mainly UK equities	2,500	1,573
<b>Threadneedle UK Equity Income</b> Steady growth in income and acceptable capital growth. Aims for a yield greater than 110% of the FTSE All Share Index	5,000	4,424
<b>M&amp;G Global Dividend Fund</b> Aims to: deliver an income stream that increases every year; deliver a yield above that available from the MSCI All Countries World Index over any five year period; and deliver a higher total return over the MSCI All Countries World Index over any five year period	2,500	2,683
<b>M&amp;G UK Income Distribution Fund</b> Aims to increase income distributions over time and targets a yield greater than the FTSE All-Share Index. The investment manager will also aim for capital growth.	3,000	2,383
<b>CCLA Local Authorities Property Fund</b> Aims to provide long-term capital and income return. The fund must pay out the income it generates.	3,000	3,044
<b>Investec Diversified Income Fund</b> Aims to provide steady income (4-6% p.a.) and the opportunity to grow the value of the investment over the long term by investing in an actively managed global multi-asset portfolio	1,000	917
<b>Kames Diversified Monthly Income Fund</b> Aims to provide income with the potential for capital growth over the medium term. The fund also aims for half to two-thirds of the volatility of the MSCI World Index.	2,000	1,720
<b>Total</b>	<b>19,000</b>	<b>16,744</b>

6.8. Under accounting rules changes in the fair (market) value of pooled funds represents a proper charge (or credit) in the Council's Statement of Accounts.

However, under statutory regulations this accounting impact is adjusted so that there is no immediate effect on the Council's General Fund balances until such time shares/ units are sold. This statutory reversal is currently in place for a period of five years ending 31<sup>st</sup> March 2023. Nevertheless, the current drop in value does represent a potential future risk until such time markets recover.

6.9. With the sharp fall in economic activity following the outbreak of the coronavirus pandemic and the uncertainty this created in the property market, the Council was informed in late March that dealings in the CCLA Property Fund would be suspended until further notice. This was in line with the rules of the Financial Conduct Authority which requires funds to take action where there is material uncertainty over pricing of over 20% of assets held. This action was not unique to this fund. The position continues to be kept under review in conjunction with the Council's treasury advisors, Arlingclose.

6.10. As a client of Arlingclose, the Council receives quarterly benchmarking information which is summarised in the table below:

**Table 8: Arlingclose Client Benchmarking**

	Client Nos.	Credit Score	Credit Rating	Bail-in Exposure	WAM (days)	Strategic Fund Volatility	Income Return	Total Return
31-Mar-19		4.34	AA-	64%	74	7.0%	2.41%	3.29%
30-Jun-19		4.58	A+	78%	38	7.0%	1.90%	1.10%
30-Sep-19		4.50	A+	73%	38	8.0%	1.80%	1.10%
31-Dec-19		4.46	AA-	83%	33	7.0%	2.06%	5.03%
<b>31-Mar-20</b>		<b>3.91</b>	<b>AA-</b>	<b>49%</b>	<b>44</b>	<b>20.1%</b>	<b>1.96%</b>	<b>-3.86%</b>
Similar LAs	49	3.95	AA-	59%	53	5.1%	1.55%	-0.78%
All LAs	127	4.03	AA-	56%	20	7.6%	1.23%	-0.34%

6.11. The table above shows that the Council's position compared favourably on a number of indicators, particularly in relation to the credit quality of internally managed investments. Income Return was higher; however, Total Return (including change in fair value) was impacted by the marked drop in financial markets in the final quarter of the year. This is also reflected in the Strategic Fund Volatility index and the comparison with other Arlingclose clients where the Council's above average exposure to these types of funds shows (33% vs 25% and 16% by client group respectively), as well as the mix of funds currently being used (with an above average exposure to UK equities). As noted in paragraph 6.7, the change in market value effecting the total return does not have an immediate impact on the Council's usable resources.

## **7. Financial Implications**

- 7.1. Interest paid on borrowing amounted to £283,103, at an average rate of 4.7%. Further interest of £110,446 was paid on finance leases.
- 7.2. Total investment income for the year was £1,280,973 (equivalent to an overall return of 2.01%), and which was £250,014 more than budget due to a combination of higher cash balances and increased market interest rates. Within this overall performance, dividend income from long-term pooled funds was £922,622, a 4.98% return, whereas short-term investments contributed £358,351 of interest which equated to a return of 0.79%.
- 7.3. A treasury management reserve is maintained to aid management of the potential financial risks from treasury activities. In light of the heightened risks over the level of future investment income due to the current economic downturn the Cabinet Member for Finance and Performance Management agreed as part of the budget carry forward process to increase the reserve by the amount of income overachieved against budget in 2019/20. This meant the balance on the reserve at 31<sup>st</sup> March 2020 was £1,217,413.

## **8. Non-Treasury Investments and Loans**

- 8.1. Although not classed as treasury management activities, the CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Council holds direct property investments with a market value of £37.246m comprising: industrial land and units; shops; offices; and other commercial property. Properties are leased to third parties generating rental income. Net rental income was £2.233m, representing a return of 6.1% on the average value of assets.
- 8.2. The overall market value of investment property increased by £0.983m, due mainly to rent reviews and other changes to lease terms resulting in improved yields. This increase in value is caveated by the uncertainties surrounding property valuations in the current economic climate.
- 8.3. The Council also has a number of loans which have been made for service reasons. At 31<sup>st</sup> March 2020, the amount outstanding on these was £54,724. During the year one loan of £200,000 was repaid in accordance with the terms of the loan, and a mortgage loan of £46,660 was repaid early.

## **9. Compliance Report**

- 9.1. The Corporate Director (Finance) can confirm that all treasury management activities undertaken during 2019/20 complied fully with the CIPFA Code of

Practice and the Council's approved TMSS. Compliance with specific limits is demonstrated below.

<b>Table 9: Compliance against Borrowing Limits</b>					
	<b>2019/20 Maximum</b>	<b>31-Mar-20 Actual</b>	<b>2019/20 Operational Boundary</b>	<b>2019/20 Authorised Limit</b>	<b>Complied</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Borrowing	6.000	6.000			
Finance Lease	2.499	2.180			
<b>Total Debt</b>	<b>8.499</b>	<b>8.180</b>	<b>35.000</b>	<b>50.000</b>	<b>√</b>

9.2. Table 9 demonstrates compliance against the operational boundary and authorised limit for external debt. Whilst the operational boundary is a management tool for in-year monitoring, and under the Code may be breached on occasions due to variations in cash flow, this is not counted as a compliance failure. However, at no point during the 2019/20 year was total debt above the operational boundary. The Authorised Limit was set with an expectation of increased borrowing being required to support the District Investment Programme; however, as reported in Section 4 actual spend was much lower in the year.

9.3. In approving the TMSS, limits were set for amounts invested and these are detailed in the table below:

<b>Table 10: Compliance against Investment Limits</b>				
	<b>2019/20 Max £m</b>	<b>31-Mar-20 Max £m</b>	<b>2019/20 Limit £m</b>	<b>Complied</b>
Any single UK/ Non-UK bank or building society (unsecured)	3.000	0.000	3.000	√
Any single AAA rated Money Market Fund	5.000	5.000	5.000	√
Loans to any single UK Local Authority	3.000	3.000	5.000	√
Any single unrated Investment (Pooled) Fund	5.000	5.000	5.000	√
Aggregate Unrated Investment Funds	19.000	19.000	20.000	√

9.4. For the purposes of day-to-day banking the aim is to maintain a balance of no more than £1.5m on the Council's current accounts, subject to short-term cash flow requirements. Table 11 shows how the Council performed against this objective.

**Table 11: Day-to-Day Banking Balance**

	2019/20 Min	2019/20 Max	2019/20 Weighted Average	31-Mar-20 Actual
Objective:	£m	£m	£m	£m
Aim not to have > £1.5m at any time	0.145	5.586	1.594	0.615
No of days <= £1.5m			185	
As % of days in the year			51%	

9.5. The above performance compares to the previous year where a balance equal to or less than £1.5m was achieved on 219 days or 60%. Counterparty restrictions recommended by the Council's treasury management advisors coupled with the overall increase in cash balances meant that higher balances were held for short durations.

## **10. Treasury Management Indicators**

- 10.1. The Council measures and manages its exposures to treasury management risks using the following indicators:
- 10.2. **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk.

**Table 12: Compliance against Interest Exposure Limits**

	31-Mar-20 Actual £m	2019/20 Limit £m	Complied
<b>Investments</b>			
Upper limit on the one year revenue impact of a 1% drop in interest rates	0.452	0.750	✓

- 10.3. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limit on the long-term principal sum invested to final maturities longer than 364 days, or where the intention was to hold the investment for more than one year was £20m. At the 31 March 2020, the amount held with intention of being longer than 364 days was £19m, as per the Council's holdings in pooled funds.

## **11. Treasury Management Advisors**

- 11.1. The Council continued to employ Arlingclose as its treasury management advisors. Regular communications and updates on related matters have been

received by officers and Arlingclose attended meetings of the Strategic Investment Programme Group held during the year.



## **Appendix A – Economic and Market Commentary by Arlingclose (April 2020)**

**Economic background:** The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29<sup>th</sup> March 2019 Brexit deadline was extended to 12<sup>th</sup> April, then to 31<sup>st</sup> October and finally to 31<sup>st</sup> January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The International Labour Organisation (ILO) unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

Gross Domestic Product (GDP) growth in Q4 2019 was reported as flat by the Office for National Statistics. Service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions. The annual rate of GDP growth remained below-trend at 1.1%. Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August.

Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

**Financial markets:** Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31<sup>st</sup> March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar year 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

A summary of UK rates across different periods is shown in the Table below:

**Table: Money Market Rates**

	Bank Rate	Overnight LIBID	7-day LIBID	1-mth LIBD	3-mth LiBID	6-mth LIBID	12-mth LIBID
Average	0.72	0.52	0.66	0.61	0.72	0.80	0.88
Maximum	0.75	0.70	0.70	0.70	0.83	0.96	1.08
Minimum	0.10	0.01	0.60	0.42	0.64	0.72	0.80
Spread	0.65	0.69	0.10	0.28	0.19	0.24	0.28

LIBID= London Interbank Bid Rate

**Credit review:** In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the

coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all but a few banks on the counterparty list to negative. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.