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AUDIT COMMITTEE

Date: Wednesday, 10 November 2021

Time: 6.00pm

Location: Council Chamber, Daneshill House, Danestrete, Stevenage

Contact: Ian Gourlay (01438) 242703

committees@stevenage.gov.uk

Members: Councillors: T Callaghan (Chair), J Gardner (Vice-Chair), M Arceno, Ashley-Wren, S Booth, G Lawrence, N Leech, M McKay, C Parris and L Rossati.
Mr G Gibbs (Independent Co-opted Non-voting Member).

AGENDA

PART I

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 8 SEPTEMBER 2021

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 8 September 2021.

Pages 3 – 8

3. APPOINTMENT OF EXTERNAL AUDITORS - OPTING IN TO THE PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA) PROCESS

To consider a report recommending to Council that SBC opts into the appointing persons arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors covering the period April 2023 to March 2028.

Pages 9 – 14

4. ADOPTION OF AN ANTI-FRAUD & CORRUPTION STRATEGY; ANTI-MONEY LAUNDERING POLICY; AND FRAUD SANCTIONS POLICY

To consider the adoption of an Anti-Fraud & Corruption Strategy; an Anti-Money Laundering Policy; and a Fraud Sanctions Policy.

Pages 15 – 56

5. INDEPENDENT MEMBER OF AUDIT COMMITTEE

To consider a report in respect of the Independent Co-opted Non-voting Members of the Audit Committee.

[REPORT TO FOLLOW]

6. PROGRESS OF CORPORATE AND SERVICE GOVERNANCE ACTIONS

To consider the progress of Corporate and Service Governance actions identified in the Council's Annual Governance Statement reported to the Audit Committee on 8 June 2021.

Pages 57 – 74

7. MID YEAR REVIEW OF TREASURY MANAGEMENT STRATEGY 2021/22

To consider a Mid Year review of the 2021/22 Treasury Management Strategy.

Pages 75 – 102

8. URGENT PART I BUSINESS

To consider any Part I business accepted by the Chair as urgent.

9. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.
2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

10. PART II MINUTES - AUDIT COMMITTEE - 8 SEPTEMBER 2021

To approve as a correct record the Part II Minutes of the meeting of the Audit Committee held on 8 September 2021.

Pages 103 - 104

11. STRATEGIC RISK REGISTER

To note the latest Strategic Risk Register for Stevenage Borough Council and developments on risk management issues.

Pages 105 - 142

12. URGENT PART II BUSINESS

To consider any Part II business accepted by the Chair as urgent.

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Wednesday, 8 September 2021

Time: 6.00pm

Place: Council Chamber, Daneshill House, Danestrete, Stevenage

Present: Councillors: John Gardner (Vice-Chair in the Chair), Myla Arceno, Julie Ashley-Wren, Stephen Booth, Graham Lawrence, Nick Leech, Maureen McKay, Claire Parris and Loraine Rossati.
Mr Geoffrey Gibbs (Independent Co-opted Non-voting Member).

Start / End Time: Start Time: 6.00pm
End Time: 7.30pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence had been submitted by Councillor Teresa Callaghan (Chair).

There were no declarations of interest.

2 MINUTES - 8 JUNE 2021

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 8 June 2021 be approved as a correct record and signed by the Chair.

3 EXTERNAL AUDIT OF SBC ACCOUNTS 2019/20 - PROGRESS REPORT

Neil Harris from Ernest & Young (EY LLP) provided an update to Members on the External Audit of Accounts for 2019/2020, together with proposals for the External Audit of the 2020/21 Accounts.

Neil Harris advised that, whilst some progress had been made towards completing the audit of the 2019/20 SBC accounts, there were still some outstanding issues regarding the valuation of assets. The Strategic Director (CF) was currently in the process of finalising the "Going Concern" element, which was a new requirement to demonstrate that Councils would be stable financially until March 2023.

The Strategic Director (CF) commented that long-standing staff changes were continuing to impact on the valuation of assets area. The 2019/20 accounts would not be ready to present to the Audit/Statement of Accounts Committee meeting scheduled for 29 September 2021, as further consultation on the accounts would be required prior to final review.

In terms of the 2020/21 accounts, the Strategic Director (CF) stated that it was anticipated these would be finished in draft by the end of September 2021. EY LLP had confirmed that, provided this deadline was met, they would commence the audit

of those accounts in November 2021. EY LLP had also confirmed that the audit would be conducted by a fully-resourced team, although were mindful of the strain on the SBC Finance Team in view of the fact that November was an important month for Council budget setting.

Neil Harris explained that a capacity issue had been seen across many local government organisations and external auditors. Around 30 other 2019/20 local government audits carried out by EY LLP had not yet been concluded. EY LLP had made representations to various bodies, including the Ministry of Housing, Communities & Local Government and Public Sector Audit Appointments, seeking their views on what they considered to be an appropriate time of the year for public sector audits.

In response to a Member's question regarding audit capacity, Neil advised that this was a national problem across all Public Sector Audit suppliers, exacerbated by the increasing strain on Local Authority Finance Teams. However, the Ministry of Housing, Communities and Local Government (MHCLG) would be undertaking a national root and branch review of the issue.

In reply to a further question, the Strategic Director (CF) confirmed that the previous requirement had been for the unaudited accounts to be published by the end of May each year, to enable the external audit to take place thereafter (SBC had met this deadline up to 2020). The existing problems and delays regarding the 2019/20 accounts had been an unprecedented combination of staff turnover, a shortage of finance professionals and the impact of the Covid pandemic.

As there were still a number of outstanding queries on the 2019/20 accounts, together with the need to allow time for consultation and final review, it was confirmed that the Audit Committee/Statement of Accounts Committee meeting scheduled for 29 September 2021 would be cancelled.

It was **RESOLVED** that the verbal progress report on the external audit of the SBC accounts 2019/20 be noted.

4 SHARED ANTI-FRAUD SERVICE (SAFS) ANNUAL REPORT 2020/21

The Head of the Shared Anti-Fraud Service (SAFS) presented an annual report in respect of the Anti-Fraud Plan 2020/21.

The Head of SAFS advised that, with regard to the Covid-19 pandemic, SAFS had continued to provide support to the Council, both in tackling a significant increase in cybercrime activities and in relation to SBC's small grants schemes, which were at risk of fraud. All cybercrime activities had been reported to the National Fraud Centre, who would take action to take down the fraudulent websites.

With regard to the 2020/21 Anti-Fraud Plan/Annual Report, the Head of SAFS stated that all Key Performance Indicators (KPIs) for had been met, with the exception of the "Properties Recovered" target. This had been due to the Government decision to not evict tenants during the Covid lockdown.

The Head of SAFS commented that, although the level of reported fraud had declined during 2020/21, SAFS had issued fraud alerts to the Council on 31 occasions. 38 cases had been investigated and closed in the year, and 25 of those had been identified as fraud losses/savings totalling £195,000.

The Head of SAFS referred to the proactive work undertaken by SAFS during 2020/21, including fraud awareness training (e-learning) and a number of publicity campaigns carried out.

In response to a series of Member's questions, the Head of the Shared Anti-Fraud Service replied as follows:

- SAFS remote access to partner Council IT systems had improved;
- Members of the public, neighbours and Housing Officers were the major sources of SAFS being informed of empty or illegally sub-let Council properties, together with interrogation of relevant Council IT systems;
- The Key Performance Indicators for 2021/22 were similar to those for 2020/21 to allow for managing the workload within existing resources and to concentrate on good quality support and investigations, rather than trying to achieve unrealistic quantitative targets;
- In terms of whistleblowers, SAFS would only become involved should fraud be alleged by the whistleblower, and all non-fraud cases were the responsibility of the Strategic Director (CF); and
- It was confirmed that welfare fraud had remained stable throughout 2020/21; tenancy fraud had experienced some movement/fluctuation; and only one Covid-19 Support Grant application had been investigated for fraud.

In reply to a Member's request, the Head of the Shared Anti-Fraud Service undertook to provide that Member with a copy of an SBC Tenancy Agreement.

It was **RESOLVED**:

1. That the Council's work to combat fraud in 2020/21 be noted.
2. That the performance of the Shared Anti-Fraud Service (SAFS) in meeting its Key Performance Indicators in 2020/21 be noted.

5 SHARED ANTI-FRAUD SERVICE (SAFS) ANTI-FRAUD PLAN 2021/22 - PROGRESS

The Head of the Shared Anti-Fraud Service (SAFS) gave a verbal update regarding progress with delivery of the 2021/22 Anti-Fraud Plan.

The Head of SAFS stated that the 2021/22 Key Performance Indicators were on target. He advised that, as the end of August 2021, SAFS had received 44 fraud referrals and was currently handling 45 "live" cases, with an estimated fraud loss of £600,000. 29 cases had been closed in 2021/22 - £157,000 worth of fraud had been prevented and an estimated £55,000 of fraud losses were in the process of recovery. A prosecution was proceeding in respect of one fraudulent claim for Government Covid Grant financial assistance, and four Council properties had been

recovered due to breaches in tenancy agreements.

In relation to other matters, the Head of SAFS explained that anti-fraud training had been delivered to the Council's Housing and Environmental Health Teams; and that he would be submitting 4 documents (Revised Anti-Fraud and Corruption Strategy; Anti-Money Laundering Policy; Revised Whistleblowing Policy; and New Fraud Prosecution and Sanction Policy) to the November Audit Committee meeting for approval/endorsement.

In response to a Member's question, the Head of the Shared Anti-Fraud Service commented that it would be difficult to measure the level of fraud in Stevenage in comparison with other areas of the UK. The Strategic Director (CF) added that performance was related to the number of cases detected, but that this could not be quantified in relation to the total level of fraud (detected or undetected) in any given local authority area. She stated that there was a role for the Audit Committee to ensure that good governance and controls were in place when it received audit outcomes/recommendations from SIAS following audits of various service areas.

It was **RESOLVED** that the progress of Shared Anti-Fraud Service (SAFS) in respect of the Anti-Fraud Plan 2021/22 be noted.

6 SIAS INTERNAL AUDIT PLAN 2021/22 - PROGRESS REPORT

The SIAS Client Audit Manager presented a progress report with regard to the SIAS Internal Audit Plan 2021/22 (up to 20 August 2021).

The SIAS Client Audit Manager advised that, July 2021, audit reports had been issued in respect of Leasehold Properties 2020/21 (Satisfactory Assurance); Vehicle Workshop (Substantial Assurance); and North Road Development (Substantial Assurance). The table at Paragraph 2.3 of the report summarised the position with regard to the 21 audits proposed for 2021/22.

The SIAS Client Audit Manager referred to Paragraph 2.4 of the report, which set out the proposed changes to the audit programme, namely the deferral of the Council Housebuilding & Acquisitions Programme audit to 2022/23 and the addition of the Homes England Compliance audit.

The SIAS Client Audit Manager drew attention to the 4 High Priority Recommendations contained in the report, 3 of which had been implemented. He intended to report progress regarding the fourth Recommendation to the November meeting of the Committee.

It was **RESOLVED**:

1. That the SIAS Internal Audit Plan 2021/22 progress report be noted.
2. That the changes to the SIAS Internal Audit Plan 2021/22, as at 20 August 2021, be approved.
3. That the status of Critical and High Priority Recommendations be noted.

7 ANNUAL TREASURY MANAGEMENT STRATEGY - REVIEW OF 2020/21

The Strategic Director (CF) presented a report on the Annual Treasury Management Review of 2020/21, including the Prudential Code.

The Strategic Director began by pointing out two minor errors to the report, namely:

- Pie Chart at Paragraph 4.2.4.2 of the report – the figure for the Collection Fund should be “£12.2M) 16%”; and
- Table at Paragraph 4.2.6.1 of the report – should be headed “Investment balances 2017/18 to 2024/25”.

The Strategic Director (CF) advised that, in 2020/21, the Council’s investment balance were higher than normal, due to the temporary uplift caused by the Government’s Covid Support Grants. The Council’s average investment balance of £63M had earned £406,000 of interest, with an average interest rate of 0.65%. There had been Capital expenditure of £44.36M, some of which had been financed through borrowing. The Minimum Revenue Provision’s charge to the General Fund in 2020/21 was £275,775, as broken down in Paragraph 4.2.5.2 of the report.

The Strategic Director confirmed that a Member Training session on Treasury Management, primarily aimed at Executive and Audit Committee Members, but also open to all Members, had been arranged to take place on 14 October 2021.

In reply to Members’ questions, the Strategic Director (CF) explained the composition of “Other Allocated Reserves” set out in the pie chart at Paragraph 2.2.4.2 of the report; and confirmed that SBC investments were managed through external treasury management advisors, who would of course endeavour to seek the most advantageous interest rates possible on investments.

It was **RESOLVED** that, subject to any comments from the Executive, the 2020/21 Annual Treasury Management Review be recommended to Council for approval.

8 URGENT PART 1 BUSINESS

None.

9 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED**:

1. That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as described in Paragraphs 1 - 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.
2. That Members considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

10 PART II MINUTES - AUDIT COMMITTEE - 8 JUNE 2021

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 8 June 2021 be approved as a correct record and signed by the Chair.

11 STRATEGIC RISK REGISTER

The Committee received the Council's latest Strategic Risk Register.

The Corporate Performance & Improvement Officer updated the Committee on changes to key risks and answered Members' questions.

It was **RESOLVED**:

1. That the latest Strategic Risk Register (set out in Appendices A1 – A3 to the report) be noted.
2. That developments on risk management issues be noted.

12 URGENT PART II BUSINESS

None.

CHAIR

Part 1 – Release to Press



Meeting Audit Committee

Portfolio Area Resources

Date 10th November 2021



APPONTMENT OF EXTERNAL AUDITORS – OPTING IN TO THE PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA) PROCESS

NON KEY DECISION

1 PURPOSE

1.1 Local Authorities are required under legislation to appoint their own External Auditors. The Local Audit and Accountabilities Act 2014 requires Local Authorities to decide between opting from one of the following two options available:

1. The Council running its own procurement exercise.
2. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime (Local Audit (Appointing Person) Regulations 2015).

1.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council.

2 RECOMMENDATIONS

2.1 That Members agree:

- i. That the Committee recommends to Council that the Council will opt into the appointing arrangements made by the Public Sector Audit Appointments

(PSAA) for the appointment of External Auditors covering the period April 2023 to March 2028; and

ii. That the Executive Director Finance (S151) confirms the Council's interest in undertaking the opt-in appointing process following ratification by Council.

3 BACKGROUND

- 3.1 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.
- 3.2 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.3 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
- 3.4 PSAA has a responsibility for ensuring that the company delivers the following objectives:
- Appointing auditors to all relevant authorities;
 - Setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
 - Ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - Ensuring that public money continues to be properly accounted for and protected;
 - Being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
 - Leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.
- 3.5 The Council opted-in to the last procurement exercise undertaken by PSAA in 2017 and under this agreement External Audit services have been supplied through the PSAA procurement route for the accounts since 2018/2019. This arrangement will end for the accounts for 2022/2023 and PSAA is undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years. As Members will know, the Council's auditors are Ernst & Young.

- 3.6 In September 2021, the PSAA issued their invitation to all principal local government organisations (including police and fire bodies) to confirm that they wished to opt into the next national scheme for auditor appointments which will commence in April 2023 and run until March 2028.
- 3.7 The PSAA has also published its strategy for the procurement of audit services contracts for the second appointing period. Their stated aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long-term competitive and more sustainable market for local public audit services.
- 3.8 A decision to become an opted-in authority must be taken in accordance with the Regulations (i.e., by agreement at Full Council). To become an opted-in authority, the form of acceptance notice has to be completed and returned to PSAA by 11 March.
- 3.9 The Local Government Association (LGA) 'supports the appointing person arrangements and encourages as many eligible bodies as possible to opt in. It believes the national scheme remains the best option councils can choose. In its view, there are many reasons for favouring the national arrangements and those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.'

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Option 1: Make a Stand-Alone Appointment through a Council Auditor Panel

- 4.1.1 The Council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract. This option would provide the Council with the scope to select panel members with an appropriate skill set and understanding of the Council's particular circumstances and would enable the panel to make an informed choice as to the most suitable audit firm for Stevenage Borough Council, minimising the risk of incurring unnecessary costs of appointment.
- 4.1.2 However, it is unlikely that this approach would be the best means of securing the appointment of a suitable external auditor. A local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement scheme, and the larger firms may consider a single authority contract too small to bid for. In addition, both the procurement process and the ongoing contract management would be additional administrative burdens for the Council.
- 4.1.3 Therefore, self-procuring provides no obvious benefits:

- The service being procured is defined by statute and by accounting and auditing codes
- Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).

4.1.4 This option is therefore not recommended.

4.2 Option 2: Opt-in to the PSAA Arrangements

- 4.2.1 There is no fee levied directly by the PSAA to the local authorities for appointing auditors or for managing the arrangements. These costs are instead recovered through audit fees set by PSAA. The company is staffed by a team with significant experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees. Many of them have transferred from predecessor bodies such as the Audit Commission.
- 4.2.2 The Scale Fee for the Council's audit has remained fixed for the past three years at £49,283 per annum. However, there have been fee increase requests since the 2017/18 audit. Members should note that the issues with the 2019/20 audit will cause a fee variation.
- 4.2.3 The PSAA has worked closely with the LUCLG to enable the Government to consult on changes to the fee setting arrangements to deal better with variations at national and local level, which may result in more flexible and appropriate Regulations later this year.
- 4.2.4 It should however be noted that under the current PSAA regime only 9% of local government audits for last year (2020/21) were completed by the end of September. This is a sharp reduction on the 45% filed on time for 2019/20, and is the third successive year where the number of accounts produced on schedule has reduced.
- 4.2.5 Sir Tony Redmond's review, published in September 2020, has highlighted that the current fee structure does not enable auditors to comply with their contractual obligations. He said an increase in fees must be considered, given the fact that so many audits fail to meet statutory deadlines.
- 4.2.6 When appointment options were last considered by Audit Committee and Council, the PSAA route was considered the most attractive.

4.2.7 This option is therefore recommended.

5 IMPLICATIONS

5.1 Financial Implications

Opting in provides the most cost effective procurement option. The cost of the Council undertaking its own procurement process would be higher than the PSAA route. Opting in offers greater opportunity to achieve a lower audit base fee due to economies of scale and buying power available under joint procurement. As at April 2021, 540 public sector bodies were opted in to the PSAA.

Until the procurement exercise is completed it is not possible to identify the financial impact of the process and Audit Fees for 2023/2024. However, as stated the PSAA option should deliver a lower cost compared to self-procuring as there is greater opportunity through using PSAA and any increase will be minimised with better quality options.

5.2 Legal Implications

None.

5.3 Risk Implications

The principal risks are that the Council:

- Fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- Does not achieve value for money in the appointment process.

These risks are considered best mitigated by opting into the sector-led approach through the PSAA.

The process as set out above and the recommendations should ensure compliance with the Local Audit and Accountability Act 2014.

5.4 Other Corporate Implications

The appointment of External Auditors is a key part of the Council's overall governance and control strategy.

BACKGROUND DOCUMENTS

None.

APPENDICES

None.

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Part 1 – Release to Press



Meeting Audit Committee

Portfolio Area Resources

Date 10th November 2021



ADOPTION OF AN ANTI-FRAUD & CORRUPTION STRATEGY/ ANTI-MONEY LAUNDERING POLICY/ FRAUD SANCTIONS POLICY

NON KEY DECISION

1 PURPOSE

- 1.1 To provide the Committee with a copy of the Councils revised Anti-Fraud and Corruption Strategy as recommended by CIPFA, the National Audit Office and the Fighting Fraud and Corruption Locally Strategy 2020, for review, comment and adoption.
- 1.2 To provide the Committee with a copy of the Councils new Anti-Money Laundering Policy, to comply with the Anti-Money Laundering Act 2017 as recommended by CIPFA although the Council is not part of the regulated sector, for review, comment and adoption.
- 1.3 To provide the Committee with a copy of the Councils new Fraud Sanctions Policy, as recommended by CIPFA and Ministry for Housing Communities and Local Government, for review, comment and adoption.

2 RECOMMENDATIONS

- 2.1 That the Audit Committee adopts the proposed Anti-Fraud and Corruption Strategy, as set out at Appendix A to the report.
- 2.2 That the Audit Committee adopts the proposed Anti-Money Laundering Policy, as set out at Appendix B to the report.
- 2.3 That the Audit Committee adopts the proposed Fraud Sanctions Policy, as set out at Appendix C to the report.

3 BACKGROUND

Anti-fraud & Corruption Strategy

- 3.1 Recent reports from the Home Office and other agencies highlight fraud as the most prevalent crime in the UK, with 1 in 3 of all reported crimes relating to fraud. Amongst other reports the *UK Annual Fraud Indicator 2017* and CIPFAs *Fraud and Corruption Tracker 2018* all make it clear that the risk of fraud to local government is real and could cost councils more than £2bn each year.
- 3.2 In its 2020 summary report *Perspectives on Fraud (Insights from Local Government)* CIPFA published the findings of its 2019 survey of senior management across local government. The report states that 64% of respondents felt that fraud is a major problem for local authorities. 69% felt that poor organisational controls exposed councils to fraud. 87% said that prevention had to be the local government response for tackling fraud.
- 3.3 Section 151 of the Local Government Act places a duty on local authorities to have in place measures to protect the public funds that they administer, including protecting them from fraud. This is further required by the CIPFA publication the *Code of Practice on Managing the Risk of Fraud and Corruption*.

Anti-Money Laundering Policy

- 3.4 The UK government's latest rules on anti-money laundering came into force in June 2017 as The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) and replaces the Money Laundering Regulations 2007 (MLR 2007) and the Transfer of Funds (Information on the Payer) Regulations 2007 which were previously in force.
- 3.5 Although not part of the Regulated Sector CIPFA advises that all local government follow the principles of the regulations.
- 3.6 A key difference with the 2017 Regulations is that 'relevant' persons are obliged to adopt a more risk-based approach towards anti-money laundering,

in particular in how they conduct due diligence. Determining the appropriate level of due diligence requires analysis of risk factors based on the EU Directive, which are set out in MLR 2017.

Fraud Sanctions Policy

- 3.7 The fourth 'Pillar' in the *Fighting Fraud and Corruption Locally- a Strategy for the 2020's* is 'PURSUE' and this section of the national strategy requires local authorities to:

- *Prioritise fraud recovery and the use of civil sanctions.*
- *Developing capability and capacity to punish offenders.*
- *Collaborating across geographical and sectoral boundaries.*

- 3.8 The national Strategy also includes a checklist for Councils to measure themselves against as an indicator of how effective they are in promoting an anti-fraud culture and in fraud prevention. The checklist includes the following:

- *Successful cases of proven fraud/corruption are routinely publicised to raise awareness.*
- *Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.*
- *There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.*
- *Asset recovery and civil recovery are considered in all cases.*

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1 The proposed **Anti-fraud & Corruption Strategy** has been designed to provide a platform to allow the Council to protect itself against fraud and other economic crime. It should not be seen in isolation but as part of a suite of policies and procedures to combat fraud, bribery, corruption, and money laundering offences.
- 4.2 The new **Anti-fraud & Corruption Strategy** will supersede the existing Anti-Fraud & Corruption Policy 2014.
- 4.3 The proposed **Anti-Money Laundering Policy** ensures that the Council complies with the following:
- **General risk assessment:** Whereas MLR 2007 required organisations to keep policies relating to risk assessment and due diligence, MLR 2017 is more prescriptive, particularly when it comes to risk mitigation procedures.

- **Risk mitigation policies:** These policies and controls must be in writing, be proportionate to the risks identified and be approved by the relevant organisations senior management.
- **Level of due diligence:** The circumstances in which simplified customer due diligence (CDD) is permissible is more restricted under MLR 2017.
- **Reliance on third parties:** Relevant persons are still able to rely on the CDD carried out by a third party if that third party is either subject to the MLR 2017 or an equivalent regime.
- **Politically exposed persons (PEPs):** The parts of MLR 2007 which applied only to foreign PEPs now also apply to local PEPs.
- **New criminal offence:** Any individual who recklessly makes a statement in the context of money laundering which is false or misleading commits an offence punishable by a fine and/or up to 2 years' imprisonment.
- **Role of SAFS as MLRO:** The Council is a partner to the Shared Anti-Fraud Service (SAFS). In 2021 the SAFS Board agreed that the Head of SAFS should provide the MLRO role for all partners.

4.4 The proposed **Anti-Money Laundering Policy** will reflect the Councils Constitution - part 4f (Financial Regulations).

4.5 If the Council is to be effective in preventing and deterring fraud & corruption it is essential that it has in place a transparent response that reinforces the message that acts of fraud committed against the Council will be dealt with robustly.

4.6 The proposed **Fraud Sanctions Policy** reinforces the view that fraud will not be tolerated and indicates how those who commit fraud against the Council will can expect to be dealt with. The Policy also acts as a guide and procedural note on how and when certain sanctions might be applied and who the decision makers are.

4.7 Adoption of the new strategy and policies is a function for the Audit Committee as part of its responsibilities for anti-fraud and corruption. Once approved by this Committee these new strategies and policies will be implemented immediately.

5 IMPLICATIONS

Financial Implications

5.1 Fraud and corruption can potentially have a significant impact on the council's finances. As a partner authority in the Shared-Anti Fraud Service (SAFS) the council receives expert support and advice to combat fraud, bribery, corruption, and money laundering offences.

Legal Implications

5.2 None for the purposes of this report

Risk Implications

- 5.3 The risk of fraud is included in the Councils risk registers and mitigation of that risk includes having robust and effective anti-fraud policies and procedures in place.

Other Corporate Implications

- 5.4 These documents comply with the Council's Policy Framework and are a review of revised version of policies the Council already had in place.

BACKGROUND DOCUMENTS

- BD1 CIPFA Perspectives on Fraud (Insights from Local Government)
BD2 CIPFA The Code of Practice on Managing the Risk of Fraud and Corruption.
BD3 CIPFA Fraud and Corruption Tracker 2018
BD4 Fighting Fraud and Corruption Locally a Strategy for the 2020's

APPENDICES

- A Stevenage Borough Council Anti-Fraud and Corruption Strategy 2021
B Stevenage Borough Council Anti-Money Laundering Policy 2021
C Stevenage Borough Council Fraud Sanctions Policy 2021

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**Stevenage Borough Council
Anti-fraud and Corruption
Strategy 2021**

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SBC Policy Statement on Fraud and Corruption

This policy outlines Stevenage Borough Council's (the Council) attitude to fraud and corruption and the approach to be taken when faced with such matters. The Council is committed to the prevention and detection of fraud and corruption, whether from within or outside the organisation and the aims of this document are to:

- Be clear that the Council will not tolerate fraudulent or corrupt acts and will take firm action against those who defraud the authority, who are corrupt or engage in financial malpractice.
- Provide a consistent framework for managers and Members, which enables effective deterrence, prevention, detection and investigation of fraud and corruption.
- Detail the responsibilities of employees, management and Members with regard to fraud and corruption.
- Assist the relevant Strategic Directors in fulfilment of their roles as the Council's S151 Officer and as the Council's Monitoring Officer.
- Explain the role of Council officers in relation to the prevention of fraud and actively promote a culture of openness and honesty in all its dealings and has adopted Codes of Conduct for Members and officers.

The Council's employees and elected members have a key role in maintaining an anti-fraud culture. The Council has implemented effective whistleblowing arrangements and employees and Members are encouraged to raise any serious concerns about the Council's work, including any reasonable belief that fraud or corruption is occurring.

The desired culture is also reinforced through the Council's people & management policies, procedures and practices, where values of openness and honesty are highlighted.

The Council aims to learn from any incidences of fraud or corruption and where there have been breakdowns in systems, procedures, or governance arrangements, these will be reviewed, and controls put in place to prevent a reoccurrence.

This policy statement is underpinned by an Anti-Fraud and Corruption Strategy, which sets out the key responsibilities regarding fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

The strategy is based upon four key themes: **Govern, Acknowledge, Prevent and Pursue**, and adheres to the *Fighting Fraud and Corruption Locally- A Strategy for the 2020s* published in March 2020.

Appendix 4 to this report sets out how these themes are addressed by the Council.

Definitions of Commonly Used Terms

Fraud

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud as:

“Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss”

As a crime ‘Fraud’ is defined by the Fraud Act 2006 as:

- Fraud by false representation
- Fraud by failing to disclose
- Fraud by abuse of position

In addition, the Fraud Act deals with offences relating to the possession of articles for use in fraud, making or supplying articles for use in frauds, participation by a sole trader in fraudulent business, and obtaining services dishonestly, either personally or for another.

Bribery

The Bribery Act 2010 came into force in the UK on 1 July 2011. It amends and reforms UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. Staff need to be aware of their obligations under this Act, which sets out offences of accepting and giving bribes. This applies to both staff and the Council corporately.

The Bribery Act creates the following offences:

- Active bribery: promising or giving a financial or other advantage;
- Passive bribery: agreeing to receive or accepting a financial or other advantage;
- Bribery of foreign public officials; and
- The failure of commercial organisations to prevent bribery by an associated person (corporate offence).

The penalty under the Bribery Act is an unlimited fine and/or imprisonment up to a maximum of 10 years.

Corruption

Corruption is the deliberate misuse of your position for direct or indirect personal gain. “Corruption” includes offering, giving, requesting or accepting a bribe or reward, which influences your actions or the actions of someone else. The Bribery Act 2010 makes it possible for Senior Officers to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe.

The Act also creates the Corporate Offence of “Failing to prevent bribery on behalf of a commercial organisation” (corporate liability). To protect itself against the corporate offence, the Act also requires organisations to have “adequate procedures in place to prevent bribery”. This strategy, and the Councils Codes of Conduct (Members and Employees) and the Council’s Confidential Reporting Procedure (Whistleblowing) are designed to meet that requirement.

Money Laundering

Money Laundering is the process by which criminals attempt to 'recycle' the proceeds of their criminal activities in order to conceal its origin and ownership whilst retaining use of the funds.

The burden of identifying and reporting acts of money laundering rests within the Council. Any service that receives money from an external person or body is potentially vulnerable to a money laundering operation. The need for vigilance is vital and any suspicion concerning the appropriateness of a transaction should be reported and advice sought from the Money Laundering Reporting Officer.

The Council recognises its responsibilities under the Money Laundering Regulations 2017 and the Proceeds of Crime Act 2002. These responsibilities are set out within the Council's Anti-Money Laundering Policy

Anti-Fraud and Corruption Strategy

The Council will fulfil its responsibility to reduce fraud and protect our resources with a strategic approach consistent with that outlined in the Fighting Fraud and Corruption Locally Strategy 2020 and CIPFA's Managing the Risk of Fraud and Corruption.

The Council will not tolerate any form of fraud and corruption, both from within the council and from external sources. We recognise fraud can:

- Undermine the standards of public service that the council is attempting to achieve;
- Reduce the level of resources and service delivery for the residents of Hertfordshire; and
- Reduce public confidence in the Council.

This strategy applies to:

- All Council employees (including volunteers and agency staff) and Councilors;
- Staff and Committee Members of council funded voluntary organisations;
- Council's partners;
- Council suppliers, contractors and consultants; and
- All Council service users and residents.

The strategy aims to:

- Protect the Council's valuable resources by ensuring they are not lost through fraud but, are used for improved services to our residents and local taxpayers.
- Create and promote an 'anti-fraud' culture which highlights the council's approach of fraud and corruption;
- Provide a counter fraud provision which:
 - Ensures that the resources dedicated are sufficient and those involved are trained to deliver a professional counter fraud service to the highest standards.
 - Proactively deters, prevents, and detects fraud, bribery, and corruption.
 - Investigates suspected or detected fraud, bribery and corruption; and
 - Enables the council to apply appropriate sanctions and recover all losses through court action or by invoicing an individual.
- Provides recommendations to inform policy, system, risk management and control improvements, thereby reducing the council's exposure to fraudulent activity;
- Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, we will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, we may take disciplinary or legal action; and
- Work with our partners and other investigative bodies to strengthen and continuously improve our arrangements to prevent fraud and corruption.

Appendix 2 to this report sets out the Fraud Response Plan for the Council.

Managing the Risk of Fraud and Corruption

As with any risk faced by the council, it is the responsibility of managers and officers to ensure that the risk of fraud is adequately considered when preparing risk assessments supporting strategic priorities, business plans, project, and programmed objectives. In making this assessment it is important to consider the risk of fraud occurring as well as any actual incidences of fraud that occurred in the past. Once the fraud risk has been evaluated, appropriate action should be taken to mitigate those risks on an ongoing basis.

Any changes in operations or the business environment must also be assessed to ensure any impacts, which might increase or otherwise change the risk of fraud, bribery, and corruption, are considered.

Good corporate governance procedures are a strong safeguard against fraud and corruption. Adequate supervision, recruitment and selection, scrutiny and healthy scepticism should not be distrust but as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

Whilst all stakeholders in scope have a part to play in reducing the risk fraud, Elected Members, Directors and Management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.

Further Information

Further information on relevant council policy and practice can be found in the following documents:

- The Constitution, including Financial Regulations, Members Code of Conduct and Contract Standing Orders;
- Confidential Reporting Procedure (Whistleblowing);
- Risk Management;
- Information Security Policy;
- Employees Code of Conduct;
- Fraud Prosecution and Sanction Policies;

Strategy Review

The Strategic Director (S151 Officer) will ensure the continuous review and amendment of this strategy and the relevant associated policies as necessary to ensure that it remains consistent with good practice, national public sector Codes of Practice and meets the needs of the Council.

Review date: Frequency as required by legislative changes or annually.

Finding out more about Fraud

You can find out more about fraud and how this impacts on the Council as well as the Councils response to the threat of fraud, corruption and bribery on the Councils website [Reporting Fraud \(stevenage.gov.uk\)](https://www.stevenage.gov.uk/reports-and-accounts/2022-23/annual-report-and-accounts/2022-23-annual-report-and-accounts)

The Council is a partner of the Hertfordshire Shared Anti-Fraud Service (SAFS) and this service provides information about fraud and its impact on local government [Shared Anti-Fraud Service |](https://www.hertfordshire.gov.uk/anti-fraud-service)

[Hertfordshire County Council](#). SAFS also provides the Councils anti-fraud function have access to data and information held by the Council to conduct its investigations working with relevant Council officers.

For staff who suspect fraud you should speak to your line manager, head of service or Head of Finance and Business Services or you can contact the Shared Anti-Fraud Service directly at:

Telephone: **0300 123 4033**

Email: Fraud.team@hertfordshire.gov.uk (this is a secure email for all SBC staff)

Webpage: www.hertfordshire.gov.uk/fraud and select the **REPORT FRAUD** button.

Appendix 1 – Types of Fraud

Local authorities have reported a wide range of fraud risks. The main areas of fraud that were reported in Fighting Fraud & Corruption Locally 2020 continue to feature as significant risks. However, there are also new fraud types emerging. Some examples of fraud risk relevant to the Council are:

Blue Badge – Use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees.

Grants – Work not carried out, funds diverted, ineligibility not declared.

Identity fraud – False identity / fictitious persons applying for services / payments.

Internal fraud – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain;

Payroll – False employees, overtime claims, expenses.

Council Tax – False claims for discounts or exemptions to reduce liability.

Housing Benefit – False claims regarding income, capital, rent liability or family makeup to increase entitlement to benefit.

Business Rates – Deliberate withholding of information or relevant facts to evade or reduce liability.

Housing/ Tenancy Fraud – providing false information to obtain social housing, sub-letting or parting with occupation, false succession applications and right to buy applications supported by money laundering.

Procurement – Tendering issues, split contracts, bribery, double invoicing or failure to deliver.

Commissioning of services, including joint commissioning, and third sector partnerships – conflicts of interest, collusion.

Concessionary travel schemes – Use of concession by ineligible person, including Freedom Passes.

Cyber dependent crime and cyber enabled fraud – Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

Disabled Facility Grants – Fraudulent applications for adaptations to homes.

Immigration, including sham marriages – False entitlement to services and payments.

Insurance Fraud – False claims including slips and trips and claims for damages.

Local Enterprise Partnerships – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

New Responsibilities – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

Money laundering – Exposure to suspect transactions.

Licensing – false ID or rights to reside, impersonation to facilitate false applications.

Appendix 2 - Fraud Response Plan

Immediately that fraud is discovered or suspected, the matter should be reported to a line manager, head of service or the Shared Anti-Fraud Service (SAFS), who will decide what further action is appropriate.

SAFS provides the Councils anti-fraud function and have access to data and information held by the Council to conduct its investigations working with relevant Council officers.

Contact details for SAFS can be found below:

Telephone: **0300 123 4033**

Email: Fraud.team@hertfordshire.gov.uk (this is a secure email for all SBC staff)

Webpage: www.hertfordshire.gov.uk/fraud and select the **REPORT FRAUD** button.

The aims and objectives of the Fraud Response Plan are to:

- Prevent further losses of funds or other assets where fraud has occurred;
- Minimise the risk of inappropriate action or disclosure taking place which would compromise an investigation;
- Ensure there is a clear understanding over who will lead any investigation and to ensure managers, HR, Internal Audit are involved as appropriate;
- Establish and secure evidence necessary and ensure containment of any information for disciplinary, civil and/or criminal action;
- Maximise recovery of losses;
- Ensure appropriate and timely action is taken against those who are suspected of fraud;
- Identify the perpetrators and take appropriate action with any disciplinary, civil and/or criminal action; and
- Minimise any adverse publicity for the Council

Notifying Suspected Fraud

The Council relies on its employees, its agents and the public to help prevent and detect fraud and corruption. Often employees are the first to realise there is something seriously wrong internally, as they are in positions to be able to spot any possible cases of fraud or corruption at an early stage.

Council employees and Members must report any concerns they may have regarding fraud, bribery and corruption, whether it relates to dishonest behaviours by council employees, Members or by others.

The action taken when a suspected case of fraud, bribery, or corruption is first found might be vital to the success of any investigation that follows, so it is important that employees' actions are in line with the information given in this document. Members, service users, suppliers, partner

organisations and members of the public are encouraged to report concerns about fraud and corruption.

Whilst you can remain anonymous, it does help if your details are provided as concerns expressed anonymously are often much more difficult to investigate. For example, we may need to contact you to obtain further information or verify the information supplied.

Investigation Process

Any suspicion of fraud will be treated seriously and will be reviewed in accordance with legislation, local policy and processes.

Suspected fraud will be investigated in an independent, open-minded and professional manner with the aim of protecting the interests of both the Council and the suspected individual(s).

Where necessary the Council will work in co-operation with other organisations such as the Police, Department for Work and Pensions, Home Office, Her Majesty's Revenue and Customs, UK Borders Agency, NHS Counter Fraud Authority and other Local Authorities.

Investigations into suspected fraud or corruption will be conducted in a professional manner in accordance with the relevant statutory provisions and local protocols to ensure any actions are carried out both fairly and lawfully.

If sufficient evidence is established, the case will be reviewed to decide on the appropriate course of action to be taken. The Council's fraud sanction policies provide further guidance of what appropriate action will be taken against the persons concerned.

Confidentiality

Details of any investigation are strictly confidential and will not be discussed with anyone other than the relevant management representatives.

If the media becomes aware of an investigation and attempts to contact employees or Members, no disclosure of the alleged fraud and investigation can be given. All matters relating to statements to the media will be dealt with through the Council's communications team.

Summary

This Fraud Response Plan, in conjunction with the Counter Fraud and Corruption Strategy, provides a framework for preventing and investigating fraud, corruption and bribery against the Council. It is imperative that awareness of this plan is promoted both across the Council and externally.

The plan will be reviewed at least annually and following any major fraud or changes in legislation.

Appendix 3 - How the Council evidences its Governance & Acknowledges, Prevents, and Pursues Fraud

Governs	Executive Support	Our Senior Management Team will set the tone for a zero tolerance of fraud and corruption and will ensure that an anti-fraud culture is embedded across the Council and the services it delivers.
	Robust Arrangements	The Council will adopt and apply appropriate policies and procedures that seek to reduce the risk of fraud and corruption and encourage staff to report fraud where they see it.
Acknowledge	Committing Support	The Council's commitment to tackling the threat of fraud is clear. We have strong whistleblowing and fraud reporting procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. We will not, however, tolerate malicious or vexatious allegations.
	Assessing Risks	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities.
	Robust Response	We will strengthen measures to prevent fraud. We will respond positively, taking appropriate action, where fraud is reported or suspected. We will review all incidences of fraud to ensure that any weaknesses in systems or processes that allowed the fraud to occur as removed.
Prevent	Better use of information technology	We will make greater use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud.
	Anti-Fraud culture	We will promote and develop a strong counter fraud culture, raise awareness, provide information on all aspects of our counter fraud work. This will include publicising the results of all proactive work, fraud investigations and any recovery of losses due to fraud.
Pursue	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action, where appropriate.
	Enforcement	Appropriately trained investigators will investigate any fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders or received via the confidential reporting procedure (whistleblowing). We will work with appropriate internal and external partners/agencies/organisations.

Appendix 4 - Responsibilities

Stakeholder	Specific Responsibilities
Chief Executive	Accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
Monitoring Officer	Statutory responsibility to ensure that the Council operates within the law. Overall responsibility for the Members Code of Conduct and the maintenance and operation of the Confidential Reporting Procedure for Employees (Whistleblowing).
Section 151 Officer	Ensure the Council has adopted and implemented an appropriate Anti-Fraud and Corruption Policy/Strategy and that the Council has an adequately resourced and effective "counter fraud" provision.
Audit Committee	Monitor the adequacy and effectiveness of the arrangements in place for combating fraud and corruption.
Members	Comply with the Members Code of Conduct and related Council policies and procedures, to be aware of the possibility of fraud, corruption, bribery and theft, and to report any genuine concerns accordingly.
External Audit	Statutory duty to ensure that the Council has adequate arrangements in place for the prevention and detection of fraud, corruption, bribery and theft.
Internal Audit	Provide assurance to senior management and the Audit Committee that the Council adheres to its own policies to deter, prevent and respond to suspected fraud.
The Shared Anti-Fraud Service	Responsible for developing and promoting the requirements of the Anti-Fraud and Corruption Strategy and monitoring and/or undertaking the investigation of any reported issues. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this strategy and that action is identified to improve controls and reduce the risk of recurrence. Providing guidance and support to senior management on new and emerging fraud risks and management recommendations where fraud has arisen due to system weaknesses.
Directors, Service Heads, Service Managers	Promote an anti-fraud and corruption culture. Ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption, bribery and theft and to reduce these risks by implementing strong internal controls.
Staff	Comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and bribery Report any genuine concerns to management or via the Whistleblowing procedure. Undertake all mandatory, relevant or recommended anti-fraud and corruption training.
Public, Service Users, Partners, Suppliers, Contractors and Consultants	To report any genuine concerns / suspicions in accordance with the Council's reporting procedure

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Stevenage Borough Council Anti-Money Laundering Policy

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- 8. Consideration of the disclosure by the MLRO**
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- 11. Conclusion**
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Appendix:

A1. Template for Report to MLRO

1. Introduction

- 1.1 Although local authorities are not directly covered by the requirements of The Proceeds of Crime Act 2002 and the Money Laundering Regulations 2017, guidance from CIPFA indicates that they should comply with the underlying spirit of the legislation and regulations.
- 1.2 Stevenage Borough Council (the Council) is committed to the highest possible standards of conduct and has, therefore, put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.
- 1.3 This policy includes the appointment of a Money Laundering Reporting Officer (MLRO) to comply with legislation and to oversee the reporting of suspicious activity and money laundering to the National Crime Agency.

2. Scope of the Policy

- 2.1 This policy aims to maintain the high standards of conduct that currently exist within the Council by preventing criminal activity through money laundering and to enable the Council to comply with legal obligations.
- 2.2 This policy applies to all employees, whether permanent or temporary, Members of the Council, contractors and anyone providing a service for the Council. Its aim is to enable employees and Members to respond to a concern they have in the course of their work for the Council and places a duty upon them to report suspicious activity and money laundering to the MLRO.
- 2.3 Individuals who have a concern relating to a matter outside of work should contact the Police.

3. Definition of Money Laundering

- 3.1 Money laundering describes offences involving the integration of the proceeds of crime, or terrorist funds, into the mainstream economy. Such offences are defined under the Proceeds of Crime Act 2002 (POCA) as the following 'prohibited acts':
 - a) Concealing, disguising, converting, transferring, or removing criminal property from the UK. (s327 POCA).
 - b) Becoming involved in an arrangement which an individual knows or suspects, facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person. (s328 POCA).
 - c) Acquiring, using, or possessing criminal property (s329 POCA).
 - d) Doing something that might prejudice an investigation e.g., falsifying a document (s333 POCA).
 - e) Failure to disclose one of the offences listed in a) to c) above, where there are reasonable grounds for knowledge or suspicion (s330-332 POCA); and
 - f) Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation. (s333 POCA).

- 3.2 Provided the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of 'failure to disclose' and 'tipping off' do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.
- 3.3 The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism.
- 3.4 Although the term 'money laundering' is generally used to describe the activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.
- 3.5 Potentially very heavy penalties (unlimited fines and imprisonment up to fourteen years) can be handed down to those who are convicted of one of the offences detailed in 3.1.

4. Requirements of the Money Laundering Legislation

- 4.1 The main requirements of the legislation are:
- To appoint a Money Laundering Reporting Officer (MLRO).
 - Maintain client identification procedures in certain circumstances.
 - Implement a procedure to enable the reporting of suspicions of money laundering; and
 - Maintain record keeping procedures.

5. The Money Laundering Reporting Officer (MLRO)

- 5.1 The Council has designated the Head of Shared Anti-Fraud Service (SAFS) as the Money Laundering Reporting Officer.
- 5.2 **The key requirement on employees is to promptly report any suspected money laundering activity to the MLRO.** (See 7. Reporting Procedure for Suspicions of Money Laundering, below for further guidance.)

The MLRO can be contacted at.

Address: Hertfordshire County Council. Shared Anti-Fraud Service (SAFS) 1st Floor Robertson House, Six Hills Road, Stevenage. Hertfordshire. SG1 2FQ.

Email: MLRO@Hertfordshire.gov.uk

Telephone No: 01438 844705

In the absence of the Head of the SAFS the SAFS Assistant Manager is authorised to deputise.

6. Client Identification Procedures

- 6.1 Although not a legal requirement, the Council has developed formal client identification procedures which must be followed when council land or property is being sold. These procedures require individuals and, if appropriate, companies to provide proof of identity and current address.
- 6.2 If satisfactory evidence is not obtained at the outset of a matter, then the transaction must not be progressed, and a disclosure report must be submitted to the Money Laundering Reporting Officer.
- 6.3 All personal data collected must be kept in compliance with the Data Protection Act 2018 and the General Data-Protection Regulation (UK).

7. Reporting Procedure for Suspicions of Money Laundering

- 7.1 Where you know or suspect that money laundering activity is taking place or as taken place or become concerned that your involvement in a matter may amount to a prohibited act under the Act, you must disclose this as soon as practicable to the MLRO. The disclosure should be within “hours” of the information coming to your attention, not weeks or months later. Your disclosure should be made to the MLRO using the disclosure report, the report must include as much detail as possible including.
 - Full details of the people involved.
 - Full details of the nature of their/your involvement.
 - The types of money laundering activity involved.
 - The date(s) of such activities.
 - Whether the transactions have happened, are ongoing or are imminent.
 - Where they took place.
 - How they were undertaken.
 - The (likely) amount of money/assets involved; and
 - Why, exactly, you are suspicious.
- 7.2 Along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering, and to enable them to prepare their report to the National Crime Agency (NCA), where appropriate. You should also enclose copies of any relevant supporting documentation.
- 7.3 If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 – 329 of the Act, then your report must include all relevant details, as you will need consent from the NCA, via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given. You should therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g., a completion date or legal deadline.

- 7.4 Once you have reported the matter to the MLRO you must follow any directions the MLRO may give you. You must NOT make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.
- 7.5 Similarly, at no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise, you may commit a criminal offence of “tipping off”.
- 7.6 Do not make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note may tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

8. Consideration of the disclosure by the Money Laundering Reporting Officer (MLRO)

- 8.1 Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. They should also advise you of the timescale within which they expect to respond to you. The MLRO will consider the report and any other available internal information they think relevant, for example:
- reviewing other transaction patterns and volumes.
 - the length of any business relationship involved.
 - the number of any one-off transactions and linked one-off transactions; and any identification evidence held.
- 8.2 The MLRO will undertake such other reasonable inquiries they think appropriate in order to ensure that all available information is considered in deciding whether a report to the NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.
- 8.3 Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:
- there is actual or suspected money laundering taking place; or
 - there are reasonable grounds to know or suspect that is the case; and
 - whether they need to seek consent from the NCA for a particular transaction to proceed.

- 8.4 Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless they have a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).
- 8.5 Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then they must note the report accordingly; they can then immediately give their consent for any ongoing or imminent transactions to proceed.
- 8.6 In cases where legal professional privilege may apply, the MLRO must liaise with the Council's Legal Department to decide whether there is a reasonable excuse for not reporting the matter to the NCA.
- 8.7 Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.
- 8.8 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- 8.9 All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.
- 8.10 The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

9. Training

- 9.1 Officers considered likely to be exposed to suspicious situations, will be made aware of these by senior management and provided with appropriate training. Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the Council and themselves.
- 9.2 Notwithstanding the paragraphs above, it is the duty of officers and Members to report all suspicious transactions whether they have received their training or not.

10. Financial Regulations

- 10.1 Although the relevant Regulations relating to money laundering do not, in many cases directly apply to local authorities, guidance from CIPFA states that local authorities should comply with the requirements of these Regulations. All

members of staff, and those acting on behalf of the Council, must follow the Council's Anti Money Laundering Policy, published on the Intranet.

10.2 This Policy sets a limit on payments to the Council in the form of cash; place a duty on members of staff who suspect money laundering activity to report this to the Money Laundering Reporting Officer; and require that officer to make appropriate reports to the National Crime Agency.

10.3 The Money Laundering Reporting Officer. The officer nominated to receive disclosures about money laundering activity within the Council. In the absence of the Head of SAFS, the SIAS Audit Manager is authorised to deputise.

The Regulations

- A. No payment to the Council will be accepted in cash if it exceeds £3,000 or if the sum offered exceeds the amount due.
- B. Any employee who suspects money laundering activity must make a Disclosure Report reporting their suspicion promptly to the Money Laundering Reporting Officer (MLRO), or to the MLRO's deputy if appropriate, using the Money Laundering Reporting Procedure.
- C. The employee must follow any subsequent directions of the MLRO or deputy and must not themselves make any further enquiries into the matter.
- D. The employee must not disclose or otherwise indicate their suspicions to the person suspected of money laundering.
- E. The MLRO or deputy must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency (NCA).
- F. The MLRO or deputy must, if they so determine, promptly report the matter to NCA on their standard report form and in the prescribed manner.
- G. The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

11. Conclusion

11.1 Given a local authority's legal position with regard to the legislative requirements governing money laundering, the Council believes that this Policy represents a proportionate response to the level of risk it faces of money laundering offences.

12. Review

12.1 This policy will be reviewed every three years by the MLRO, S151 and Monitoring Officer or as required by legislation.

Appendix 1. Report to MLRO - Template

CONFIDENTIAL

To: The Money Laundering Reporting Officer (MLRO)
Hertfordshire County Council
Head of Shared Anti-Fraud Service
1st Floor, Robertson House, Six Hills Road, Stevenage. HERTS. SG1 2FQ

From Officer Reporting Suspected Activity:

Name:	
Position:	
Business Unit:	
Email address:	
Telephone	

numbers:	
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Do not discuss the content of this report with anyone, especially the person you believe to be involved in the suspected money laundering activity you have described. To do so may constitute a tipping off offence.

Details of suspected offence:

Name(s) and address(es) of person(s) involved: (Please also include date of birth, nationality, national insurance numbers- if possible) (If a company please include details of nature of business, type of organisation, registered office address, company registration number, VAT registration number)
Nature, value, and timing of activity involved: (Please include full details e.g., what, when, where, how.)
Nature of suspicions regarding such activity:
Has any investigation been undertaken (as far as you are aware), If yes, please include details below: Yes / No
Have you discussed your suspicions with anyone else, if yes, please specify below, explaining why such discussion was necessary: Yes / No
Have you consulted any supervisory body guidance re money laundering? (e.g., the Law Society) If yes, please specify below: Yes / No
Do you feel you have reasonable grounds for not disclosing the matter to the FCA? (e.g., are you a lawyer and wish to claim legal professional privilege?) If yes, please set out full details below: Yes / No
Are you involved in a transaction which might be a prohibited act under the Proceeds of Crime Act, and which requires appropriate consent from NCA, if yes, please enclose details below: Yes / No
Please detail below any other information you feel is relevant:

FOR COMPLETION BY THE MONEY LAUNDERING REPORTING OFFICER

Date report received:	
Date receipt of report acknowledged:	

Consideration of Disclosure - Action plan

Are there reasonable grounds for suspecting money-laundering activity?
If there are reasonable grounds for suspicion, will a report be made to NCA? Yes / No
If yes, please confirm date of report to NCA:

Details of liaison with NCA regarding the report:	
Is consent required from the NCA for any ongoing or imminent transactions that would otherwise be prohibited acts. If yes, please confirm full details; Yes / No	

Date consent received from NCA:	
Date receipt of report acknowledged:	
Date consent given by you to employee:	
Date consent given by you to employee for any prohibited act transactions to proceed:	

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out below the reason(s) for non-disclosure:
Other relevant information:
Signed:..... Dated:.....

RETENTION PERIOD FIVE YEARS

STEVENAGE BOROUGH COUNCIL FRAUD SANCTIONS POLICY

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INTRODUCTION

Stevenage Borough Council (The Council) takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. The Council has a zero tolerance to fraud, theft and corruption. Where there is evidence of fraud, theft or corruption against the Council, those responsible, whether internal or external to the Council, will be held accountable for their actions using the full range of sanctions available. The use of sanctions is governed by this policy that sets out appropriate action to take.

This Policy forms part of the Council's counter fraud framework (it includes matters of fraud, bribery, corruption, misconduct) and its objectives are:

- 1. To ensure sanctions are applied fairly and consistently;**
- 2. To ensure sanctions are applied in an efficient and cost-effective way;**
- 3. To set out the range of sanctions available;**
- 4. To ensure the sanction decision making process is robust, transparent and fair**
- 5. To make it clear that the Council will not tolerate fraud.**

The Council will investigate allegations of fraud, theft, corruption or irregularity in line with the Council's Fraud Response Plan. Following an investigation, a range of factors will require consideration before deciding on appropriate sanction, including the individual circumstances of each case, the impact on the individual and the wider community, and the seriousness of the offence.

SANCTION OPTIONS

Where there is evidence of fraud, theft or corruption, the following options will be considered:

- 1) No further action;**
- 2) Referral to professional bodies;**
- 3) Disciplinary action;**
- 4) Civil proceedings;**
- 5) Criminal prosecution;**
- 6) Sanctions as alternatives to prosecution.**

**The Council will consider any of the above options and parallel sanctions may be pursued.
No further action**

The Council may consider, following an investigation, closing a case without taking any further action. This may occur where there is no evidence of fraud or misconduct, or where it is not in the public interest to take action.

Referral to professional bodies.

Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the Council will refer the matter to the relevant professional body.

Disciplinary Action

In the event that an allegation is made against a Council employee, The Shared Anti-Fraud Service (SAFS) will consult with the Council's Human Resources Service and appropriate action will be taken following the Disciplinary Policy.

The investigating officer may be a member of Internal Audit & Counter Fraud Services or may be provided to the investigating officer appointed through the HR Disciplinary process. Sanctions may include warnings or dismissal and alongside this, additional sanction options will be considered including referral to professional bodies, civil proceedings and criminal prosecutions.

If during the course of an investigation or disciplinary action, the employee suspected of fraud, theft or corruption chooses to resign, the Council will continue to pursue referral to professional bodies, civil proceedings or criminal prosecution where appropriate.

In the event of an allegation against a Councillor in relation to fraud, theft or corruption against the Council, this will be reported to the Monitoring Officer, who will agree the action to be taken with the Chief Executive. Depending on the circumstances of the case, criminal proceedings may also be considered.

Civil Proceedings

The Council may take civil proceedings where appropriate. Regardless of whether or not any sanction action is taken, the Council will seek, where appropriate, to recover any overpaid, misused or unfairly gained monies.

The following measures may be considered in the pursuit of financial recovery:

- Consultation with the Council's Payroll and Pensions Teams to redress financial loss caused by employees. The Council will attempt to recover the loss from the capital value of the individual's accrued benefits in the Pension Scheme if they are a member, which are then reduced as advised by the actuary;
- Recovery of money through appropriate legal proceedings;
- Legal action such as freezing / restraint orders to preserve evidence and assets.

There will be overpayments which are not due to fraud, and the Council will determine appropriate recovery in these cases.

Criminal Prosecution

Where the Council considers it 'expedient for the promotion or protection of the interests of the inhabitants of their area', Section 222 of the Local Government Act 1972 empowers the Council to prosecute or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name.

Furthermore, Section 223 of the Local Government Act 1972 allows a 'Local Authority to authorise any member or its staff to prosecute or defend designated matters in magistrates' court'.

In the most serious of cases, the Council will consider the prosecution of those offenders suspected to have committed fraud or theft. Where the Council considers there is sufficient evidence (based on the Code for Crown Prosecutors) to indicate a criminal act has taken place, a decision will be made whether to undertake a criminal prosecution utilising the Council's Legal Services (or contracted legal representatives) the police or another law enforcement partner (such as DWP or HMRC). This decision will be made by the Head of SAFS, the Head of Legal Services, and the relevant Director/Head of Service.

Before a decision is taken whether or not to prosecute, the Council will be guided by the Code for Crown Prosecutors and will only initiate legal action if, following legal advice, it has satisfied the following two tests:

1) Evidential Test – the evidence must be:

- Clear, reliable and admissible in court; and
- Strong enough for a realistic chance of prosecution. I.e. to prove a case 'beyond reasonable doubt'.

2) Public Interest Test – the prosecution is in the public interest, taking into account:

- Seriousness and / or monetary value of the offence;
 - Cost and proportionality of the prosecution;
 - Age and health of the suspect;
 - Culpability of the suspect;
- Circumstances of and harm caused to the victim; and
 - Impact on the community.

Where a case has been referred to the Police to investigate, the final decision as to whether or not to pursue the case will be taken by the Police and the Crown Prosecution Service.

The Council will conduct the investigations in accordance with the Criminal Procedure and Investigations Act 1996 and the Police and Criminal Evidence Act 1984. Criminal proceedings may be brought for a suspected offence under the following legislation:

- The Theft Act 1968 (as amended);
- The Fraud Act 2006;
- Local Government Finance Act 1992;
- Housing Act 1996;
- Prevention of Social Housing Fraud Act 2013;
- Forgery and Counterfeiting Act 1981;
- Computer Misuse Act 1990;
- Identity Documents Act 2010;
- The Bribery Act 2010;
- Road Traffic Regulation Act 1984;
- Any other relevant provision in law.

Any criminal proceedings can include an attempt to recover money under the Proceeds of Crime Act 2002 or Prevention of Social Housing Fraud Act 2103.

Sanction as Alternatives to Prosecution

The Local Government Finance Act 1992 allows the Council to consider financial penalties as alternatives to prosecution and these should always be considered.

However, in serious cases of fraud or where repeat offending occurs, the option to prosecute offenders will be kept under review.

Civil Penalties

Regulation 13. Council Tax Reduction Schemes (Detection of Fraud and Enforcement)(England) Regulations 2013 and Schedule 3 Local Government Finance Act 1992 permit 'billing authorities' to impose financial penalties where a person fails to report a material fact affecting their Council Tax liability or where a person fails, without good reason, to correct an error.

The Head of the Shared Revenue & Benefit Service will make the decision about the imposition of any Civil Penalties.

All penalties will be recovered by adding the debt to a person's Council Tax liability for the current year and recovered only once that annual liability has been settled in full.

Administrative Penalties.

Regulation 11 Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, provide for Administrative Penalties to be offered to persons as alternatives to prosecution. The legislation allows for Administrative Penalties amounting to 50% of the gross reduction can be offered. In all such cases of fraud the Council will seek to recover the excess award as well any penalty.

The Head of the Shared Revenue & Benefit Service will make the decision about the offer of any Administrative Penalties on advice from the SAFS. The Head of SAFS will arrange for the administrative penalty to be offered to the person liable for it and any cooling off period required by legislation.

Parallel Sanctions

It is preferable for the appropriate sanctions to proceed simultaneously, but it is not necessary for anyone to await the result of another before concluding. However, due consideration must be given to all proceedings to ensure that one does not impact improperly upon another. The decision to run parallel sanctions will be determined on a case by case basis.

PARTNERSHIPS

Where appropriate, the Council will work in partnership with other organisations such as the Police, other Local Authorities, Social Housing Providers, Department for Work and Pensions, Her Majesty's Revenue and Customs, UK Borders Agency and the Home Office, to bring joint proceedings or assist the other organisation to bring its own proceedings.

RECORDING DECISIONS

For an effective regime of sanctions to be successful accurate records of all convictions, penalties and cautions must be maintained. This will enable the correct decisions to be made taking full account of the defendant's background.

All sanctions will be recorded by both SAFS and the Council, and copies of all documents used to consider and issue the sanction should be retained, in accordance with the relevant retention policies.

In the case of prosecution, all cases that result in successful convictions will be reported to the police for recording on the Police National Computer (PNC) central databases.

PUBLICITY

It is the Council's intention to positively promote this Policy, as well as the outcome of any prosecutions, to deter others from fraudulent activity and reassure the public that the Council acts against those committing fraudulent and or corrupt acts.

Consideration will be given to whether the outcome of any case should be reported to the community via various media channels. Publicity, where appropriate, will ensure the profile of counter fraud activity remains at a level which will contribute to ensuring the key objective of preventing fraud is met.

REVIEW

This Policy will be kept under regular review by the S151 Officer and the Monitoring Officer to ensure compliance with current legislation and best practice.

Meeting: **Audit Committee**

Portfolio Area: All Portfolio Areas

Date: **10 November 2021**

Progress of Corporate and Service Governance actions

Author: Suzanne Brightwell Ext: 2966

Contributors: Assistant Directors

Lead Officer: Clare Fletcher Ext 2933

Contact Officer: Suzanne Brightwell Ext. 2966

1. PURPOSE

1.1 To advise Members of the Audit Committee of:

1.1.1. Progress to date of corporate governance actions to strengthen the Council's corporate governance arrangements as identified in the Council's 2020/21 Annual Governance Statement, reported to Audit Committee on 8 June 2021.

1.1.2. Progress to date of service governance actions identified by the 2020/21 Service Assurance reviews carried out at business unit level to strengthen the Council's service governance arrangements, reported to Audit Committee on 8 June 2020.

2. RECOMMENDATIONS

2.1. That Members of Audit Committee note:

2.1.1 Progress to date of corporate governance actions to strengthen the Council's corporate governance arrangements as identified in the Council's 2020/21 Annual Governance Statement, reported to Audit Committee on 8 June 2020.

2.1.2 Progress to date of service governance actions identified by the 2020/21 Service Assurance reviews carried out at business unit level to strengthen the Council's service governance arrangements, reported to Audit Committee on 8 June 2020.

3. BACKGROUND

3.1. Governance is the policies and procedures in place and the values and behaviours that are needed to ensure the Council runs effectively and can be held to account for its actions.

3.2. In 2016, CIPFA SOLACE published a review Framework and Guidance that reflects the International Framework: 'Good Governance in the Public Sector, developed by CIPFA/IFAC. The Framework defines the principles that should underpin the governance of each local government organisation and outlines

the requirement for authorities to test their governance structures and partnerships against the principles contained in the Framework by:

- Developing and maintaining an up to date Local Code of Governance, including arrangements for ensuring ongoing effectiveness
- Reviewing existing governance arrangements, and
- Reporting publicly on compliance with the Local Code of Governance on an annual basis setting out how they have monitored the effectiveness of their governance arrangements in the year and identify any enhancement required.

3.3. The CIPFA/SOLACE seven core principles of good governance are:

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

B: Ensuring openness and comprehensive stakeholder engagement

(Principles A and B are considered fundamental and applicable through principles C to G)

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

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

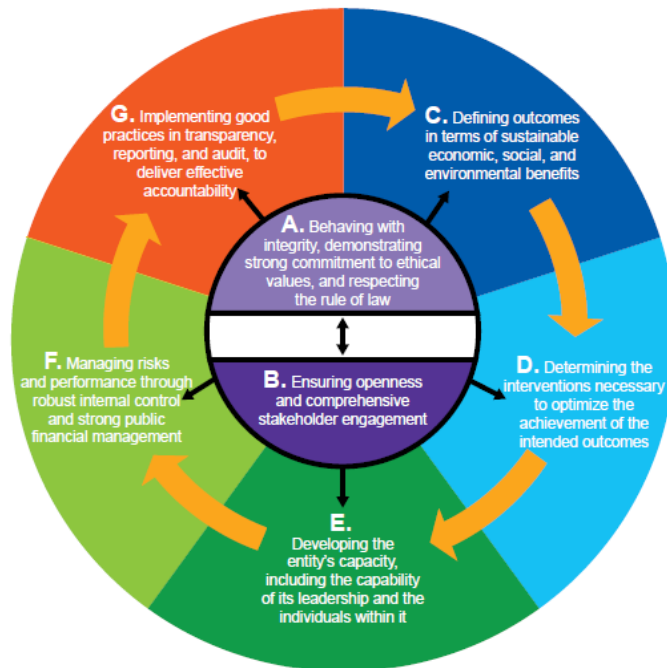
E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

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.

3.4. For each of the above core principles, the Framework outlines a set of sub-principles and a set of behaviours and actions that demonstrate good governance in practice.

3.5 The diagram on the next page, taken from the International Framework, Good Governance in the Public Sector (CIPFA/IFAC, 2014) illustrates the above principles of good governance in the public sector and how they relate to each other.



3.6 Significant Governance Enhancement Activity – April to September 2021

3.6.1 As a result of the Council's annual assessment of governance arrangements and procedures, actions were identified to improve the high quality of governance arrangements already in place for the Council. Any actions which were deemed as significant were included in the Action Plan in the 2020/21 Annual Governance Statement and these actions are reflected in Appendix A to this report.

3.6.2 Enhancement activity is deemed significant if recommended for inclusion in the Annual Governance Statement by the Shared Internal Audit Service following their review of control arrangements to meet the Audit Plan, or if identified as key to the management of 'very high/high level' strategic risks. By adopting this approach, any concerns over key controls that have a material effect on corporate governance arrangements and the delivery of outcomes should be addressed.

3.6.3 Appendix A outlines the year to date progress of the significant governance enhancement actions included in the 2020/21 Annual Governance Statement. The full year position will be reported to Audit Committee in March 2022.

3.7 Service Governance Enhancement Activity – April to September 2021

3.7.1 At business unit level, assurance of compliance with the principles of good governance requires all Assistant Directors to complete, certify and return a Service Assurance Statement each year. The Service Assurance Statement is designed to provide assurance that the control environment operated effectively during 2020/21 in respect of the business units for which they have responsibility. As a result of this review, actions were identified for delivery in 2021/22 to enhance service governance arrangements.

3.7.2 Appendix B outlines the year to date progress of the service governance enhancement actions identified during the service assurance review of service

governance at business unit level. The full year position will be reported to Audit Committee in June 2022.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

The self-assessment of the Council's corporate and service governance arrangements against the 'Delivering Good Governance in Local Government' Framework principles and identification of significant governance actions to facilitate continued compliance with this Framework, forms part of the assurance process for the production of the Council's Annual Governance Statement to meet Regulation 6 of the 2015 Accounts and Audit (England) Regulations.

5. IMPLICATIONS

5.1 Financial Implications

There are no direct financial implications arising from this report.

5.2 Legal Implications

The governance enhancements identified in this report will inform the Annual Governance Statement which will be reported to Audit Committee in June 2021. It is a requirement for the Council to publish an Annual Governance Statement alongside its Statement of Accounts.

5.3 Risk Implications

Risk management supports robust corporate governance arrangements by identifying potential risks associated with the achievement of corporate priorities and statutory requirements. Weakness in corporate governance arrangements can increase risk for the Council. Governance arrangements need to be sound and seen to be sound to mitigate risk.

5.4 Other Corporate Implications

Corporate governance affects all aspects of the work of the Council, as well as partners of the Council contributing to outcome delivery, and other agencies with which the Council shares information. External bodies, in particular, need to have confidence in the way the Council operates and this can be achieved by demonstrating robust governance arrangements that are fully embedded and a commitment to ensuring effectiveness.

6. BACKGROUND DOCUMENTS

- CIPFA/SOLACE 'Delivering Good Governance in Local Government' 2016 Framework and Guidance
- CIPFA/IFAC International Framework: 'Good Governance in the Public Sector', published August 2014
- Audit Committee report (8 June 2021) Annual Governance Statement 2020/21

7. APPENDICES

- Appendix A: Progress Review of Corporate Governance Actions 2021/22 - April to September 2021
- Appendix B: Progress Review of Service Governance Actions 2021/22 – April to September 2021

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ANNUAL GOVERNANCE STATEMENT – SIX MONTHS PROGRESS UPDATE

Action	Six Month Progress Update
<p>To implement the General Fund Asset Management Strategy the following activity is planned</p> <ul style="list-style-type: none"> • Continue the review of the Council's commercial portfolio • Continue with Locality reviews of the Council's current land and buildings to identify new opportunities for better use of existing buildings • Identify further potential sites for release for sale and identify land for the Council's own housing building programme 	<p>The Locality Review Structure is now well established. All three tranches of land identified for disposal have now been agreed by Executive. Other elements of the Council's portfolio are to be considered.</p> <p>The current Asset Management system is being reviewed to see if it can meet the needs of the service. If the system does not meet the needs of the service then a new system will need to be procured. The review of the commercial assets is reliant on the Asset Management system being set up so this is currently on hold.</p>
<p>To ensure good governance of the Regeneration Programme the following activity is planned:</p> <ul style="list-style-type: none"> • Ensuring measures are being taken to reduce the risk of construction delay and protect project budgets • Ensure contracts and adequate funding is available to carry out the regeneration work as planned • Creation of business cases for projects and work in relation to governance, resourcing, engagement and financial planning in light of the £37.5M Town Funds award • Continue to implement good governance arrangements in relation to the programme and key projects 	<p>To secure the allocated Towns Fund package, all business cases must be completed and signed-off by the Accountable Body with the accompanying project summary sheets submitted to MHCLG by March 2022.</p> <p>A report outlining progress of the regeneration programme and progress of the Town's Fund programme was considered at Council in October 2021. At this meeting, Council approved the creation of an Officer Panel to support the discharge of the Council's obligations as Accountable Body and delegated the review and approval of Business Cases in relation to the Town's Fund programme to the Executive. Council also noted the inclusion of £37.5 Million within the Council's Capital Strategy. It is anticipated that the first tranche of project business cases will be approved at November Executive. The programme team have scoped out the next 7 months in terms of the business case approval process.</p> <p>Regeneration and Housing Development meetings have been separated to maximise the effectiveness of the meetings. Regular updates on key projects are provided at each meeting. FTFC milestones have been adjusted following Covid-19, although the majority of progress remains unaffected.</p> <p>Regular Steering Group meetings are held with key members of the Mace and SBC teams, with two-weekly operational meetings between the project teams</p>

Action	Six Month Progress Update
<p>To ensure there is a clear governance structure through a corporate landlord function and ensure compliance of the Council's non-housing property, a review of the current arrangements and responsibilities for managing non-housing property is required. This will be achieved by:</p> <ul style="list-style-type: none"> • Recruitment of a permanent Facilities Manager • Implementation of a new Asset Management System • Setting up of an Asset Management Board • Produce a Strategic Plan for implementation of the Corporate Landlord function • Procedures for documenting air circulation risk assessments to be reviewed. 	<p>A permanent Facilities Manager has now started in post. The current Asset Management System is being tested to see if it can meet the needs of the service and a new Data Manager has been appointed to oversee this work.</p> <p>An Asset Management Board has been set up and initial meetings of the group have taken place.</p> <p>A Strategic Plan for implementation of the Corporate Landlord function has been produced.</p> <p>A full portfolio assessment of the current and required air circulation requirements has been carried out and suitable arrangements have been implemented as required.</p>
<p>To ensure that the Council's ambitious commercial agenda can be achieved, a programme of work is required to enhance the capacity, information, financial and legal skills of those involved in complex investment or commercial decision making. This will be achieved by:</p> <ul style="list-style-type: none"> • Delivery of the Commercialisation Action Plan • Ensure greater flexibility around income generation and savings opportunities • Implementation of the Commercial Communications and Engagement Plan • Recruitment of additional post to increase commercialisation capacity 	<p>Delivery of the action plan is progressing well. The new Trade Waste Officer is now in post and has started to generate additional revenue.</p> <p>A new Commercial Officer has also started in post.</p> <p>An overarching Advertising and Sponsorship contract went live in June 2021. The income from advertising and sponsorship will increase over time as advertising is built up.</p> <p>A new Debt Management Working Group has been set up.</p> <p>The bulky waste charging proposal has been agreed in principle and will be implemented through 2022/23 fees and charges.</p> <p>A commercial resource centre has been set up and is available on the Council's intranet.</p> <p>Contract Management training has been carried out.</p>
<p>In response to the challenges which could result from the Government's Local Government Reform and Devolution White paper the following</p>	<p>The ten Hertfordshire districts and the County are continuing to work together through the Hertfordshire Growth Board to develop a County Deal submission subject to discussion with Government officials.</p>

Action	Six Month Progress Update
<p>action is proposed:</p> <ul style="list-style-type: none"> • Undertake a review of the White Paper and its implication once it has been published • Engage with other Hertfordshire District and Borough councils to consider a response to the White Paper 	
<p>In response to the COVID-19 crisis and to ensure the Council can reinstate and continue to deliver services, continue to meet its FTFC ambitions and enable recovery from the effect of the virus in the town, the following action is planned:</p> <ul style="list-style-type: none"> • Continue with incident response management arrangements as required in response to the Covid-19 emergency. • Review the General Fund and HRA Medium Term Financial strategies in light of the financial pressures arising from the Covid-19 response. • Implement the agreed town wide Recovery Plan • Review the corporate performance measure suite and targets, to ensure they support the monitoring of the Council's recovery efforts and are realistic in the context of Covid-19 impacts on delivery 	<p>IMT meetings have continued to be held monthly and Executive Members have received monthly Covid briefings. SBC Environmental Health continues to represent SBC on the Hertfordshire Outbreak Tactical Co-ordination Group.</p> <p>The General Fund and HRA Medium Term Financial strategies have been reviewed and reported to Executive. Ongoing work continues to review the Council's financial position via regular monthly monitoring and quarterly review.</p> <p>A deep dive is taking place into post-lockdown customer cases. Engagement is in place with the Local Resilience Forum's Recovery Co-ordinating Group regarding county-wide recovery activities, with local plans in place via the Council's FTFC programme and through the Stevenage Together Partnership, focussing on recovery.</p> <p>The corporate performance measure suite and targets have been reviewed and were agreed at Executive in July 2021.</p>
<p>To enhance IT infrastructure, cyber security, governance arrangements, policy framework and resilience the Shared IT service to continue to develop and implement a strategy and programme of activity as follows:</p> <ul style="list-style-type: none"> • Completing the replacement of all the Council's firewalls • Completing the upgrade from Windows 7 to Windows 10 • Roll out of Microsoft Office 365 • Installing and roll out of network security and reporting tools • Creation of a Disaster Recovery Team to review all ICT documentation and update 	<p>The new ACI network has been installed, which enables the delivery of other vital projects such as a new desktop, Windows 10 and Microsoft 365, as well as vastly enhancing the reliability of Council systems. The new desktop (also known as the VDI upgrade) work has commenced. Roll out of new VDIs is expected to commence January 2022 and will take 4-5 months to complete.</p> <p>Work is continuing on the Windows upgrade programme and Microsoft 365 security. The Firewall replacement programme and network security management work is currently on hold due to other priorities. Work has however been carried out to delete old firewalls and this, together with the installation of</p>

Action	Six Month Progress Update
<p>the ICT Disaster Recovery Plan.</p> <ul style="list-style-type: none"> • Implementation of Microwave Link • Horizon VDI Update 	<p>the new ACI, has improved the security of our IT systems. The current firewalls are considered sufficient so this delay is not posing an increased cyber security risk.</p> <p>The microwave link has been installed and is protecting our storage at present. IT will be moving into the network migration phase shortly and as services migrate across to the new network they will automatically benefit from the additional resilience provided by the new microwave link.</p> <p>A third party quality assurance review of the ICT Strategic Programme and Operation is scheduled. It is expected this work will be carried out over an eight week period. The outcome of this review will inform a new IT strategy.</p>
<p>To continue to ensure health and safety compliance and performance across the Council the following activity is planned:</p> <ul style="list-style-type: none"> • Train SLT in IOSH Leading Safety • Continue the rolling programme of internal and external audits for medium and high risk services • Strategic Health and Safety Group to continue to meet quarterly and report high health and safety risks to Corporate Risk Group and the Council's Senior Leadership Team quarterly. 	<p>All high risks are reviewed by the Strategic Health and Safety Group and reported to Corporate Risk Group and the Senior Leadership Team quarterly. The monitor is also reviewed by the Chief Executive at the monthly HR meetings.</p> <p>The Health and Safety team have assisted to ensure that all Council buildings are Covid Secure and are currently assisting with the work required to implement the new hybrid ways of working for staff and assisting staff to return to the office.</p>
<p>Transformation Programme: To deliver a productive and resilient Council which can deliver the Council's strategic priorities, protect outcomes for residents, and provide excellent customer experiences, the need to implement a transformation programme has been identified:</p> <ul style="list-style-type: none"> • Preparation of a work plan and report for consideration by Executive • CFO and AD Digital and Transformation to prepare a resourcing plan to support the programme, including new resources to deliver where appropriate. • Recruitment of a new Transformation Delivery Manager. • Establishment of an Officer Programme 	<p>The Transformation Delivery Manager has been appointed and has started in post. A Transformation Programme Board has been set up and is meeting regularly.</p> <p>Executive at its meeting in August 2021 agreed the transformation approach to improve customer experience, deliver increased productivity and ensure sustainability.</p> <p>The two main priority areas have been identified for Phase 1. Customer (work programmes to make changes and enhancements to our customer offer, including online services and improved processes) and Resources (changes to some internal processes and activities to reduce cost).</p>

Action	Six Month Progress Update
<p>Board to prioritise the projects which will have the most impact.</p>	
<p>As a result of the combined socio-economic impacts of welfare reform, the Covid-19 pandemic, and an economic downturn following a programme of activity has been identified:</p> <ul style="list-style-type: none"> • Close management of the Council's financial position via the MTFS • Bidding for available short-term Covid-related funding from government to help recover costs • Monitor key service performance and pressures via Performance Management Framework • Continue to implement the Arrears Action Plan • Stevenage Economy Taskforce to continue to meet to create jobs and upskilling opportunities • Continue to support key partnerships including SoSafe, Healthy Stevenage and the Social Inclusion Partnership to deliver socio economic, environmental and health related outcomes • Deliver the Construction Industry Training Board initiative and create a Stevenage Works fund and job brokerage service • Implement the Community Wealth Building Strategy and programme to help address the financial inequalities that exist • Launch of a new inclusive Economy Charter • Implementation of the £37.5M Town Deal Programme to create enhanced economic opportunity • Working with local government representative bodies to lobby for longer-term sustainable funding settlement for local government 	<p>The CFO continues to assess the financial impact of the pandemic. The 2021/22 General Fund Report considered by February 2021 Council sets out the impact of Covid on the Council's General Fund budgets. Members have approved financial resilience measures that improved General Fund balances for this and future financial years.</p> <p>Corporate performance targets have been reviewed in light of the impact of Covid-19 and new performance targets were agreed at Executive in July 2021.</p> <p>A Community Wealth Programme Manager has now been appointed. A bid has been made to the Community Renewal Fund on behalf of all ten Hertfordshire districts to accelerate community wealth building plans and is currently awaiting consideration by MHCLG. Plans to reform a SBC Governance Group for Community Wealth Building (CWB) are moving forwards. The group will serve to bring together all the CWB focused activities throughout the Council.</p> <p>The Construction Industry Training Board initiative has been implemented and the Stevenage Works funding agreement has been agreed. The first cohort of people carrying out placements has completed them.</p> <p>The Council continues to support the co-ordination of its key partnerships (Stevenage Together, Economic Taskforce, Healthy Stevenage, SoSafe, Social Inclusion) and partnership action plans are in place. There is an established governance structure and action plan in place for the Community Safety Partnership. The Healthy Stevenage Partnership meets quarterly and has an agreed action plan. The Economic Taskforce has now been re-established. The Social Inclusion Partnership continues to meet regularly.</p> <p>Monthly review meetings in relation to the Arrears Action Plan and work associated with the action plan is progressing.</p>

Action	Six Month Progress Update
<p>The following activity is planned to enhance compliance with Payment Cards Industry Data Security Standards:</p> <ul style="list-style-type: none"> • Key stakeholders across the Council to be identified and a Working Group set up to carry out the review. • Payment methods to be reviewed and a replacement payment system to be considered. 	<p>An initial working group has taken place with key stakeholders and following this the Customer Service Centre are no longer taking card payments over the phone (except in exceptional circumstances whereby the customer cannot use the automated line). Further work will be undertaken over the coming months</p>
<p>The Council to continue to work with its leisure contractor to ensure recovery of leisure services after the pandemic.</p>	<p>Meetings between SBC Officers and SLL are taking place monthly. The Executive at its meeting on 9th June considered a report regarding a proposed work programme to enable the Council to determine the strategic delivery of its leisure and cultural offer post March 2023 when the current leisure contract ends.</p>

Progress Review of Service Governance Actions 2021

Action identified for 2021/22	Progress	Service Area
Principle A – Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law		
Ensure new Estates staff (when recruited) attends SBC Procurement training.	In progress. All new Estates staff have been encouraged to book on the next available session and review the online material	Finance & Estates
Carry out annual review of the Council's Whistle-Blowing Policy	In progress. This will be progressed over the next few months in association with the Shared Anti-Fraud Service	Finance & Estates
Carry out a review of the Council's approach to complaints in accordance with the new requirements outlined in the new Social Housing White Paper	Complete. Complaints Managers are now in place and are following corporate and Housing Ombudsman guidelines. Pending the white paper requirements, it has been agreed that all contact should be through YourSay and then passed to each Complaints Manager to action and a response to be provided within 10 working days	Housing & Investment
Customer First Training to be provided for new Starters in the Housing and Investment Business Unit and extend offer to Repairs and CSC	Complete. The last of these training sessions were held in August.	Housing & Investment
Financial training to be provided to Housing and Investment staff by the Finance and Estates business unit.	Complete. End of year accounts training has been provided to staff that require it in Housing and Investment.	Housing & Investment
Review of Social Housing White Paper to ensure the Council is compliant with the new requirements contained in the new Paper.	In progress. A document has been produced which outlines what the White Paper is requiring Councils to do and includes the Council's current status in relation to the new requirements. The Council's compliance against the Housing Ombudsman's Complaints Handling Code self-assessment has been completed and has been published on the SBC website.	Housing & Investment
Principle B: Ensuring openness and comprehensive stakeholder engagement		
Resident and STAR survey to be carried out.	In progress. The residents' survey is currently being carried out. The interviews are asking residents their views on their neighbourhoods, the priorities for the town and their satisfaction with council services. In addition, tenants are being asked their views on housing services.	Housing & Investment
Implement changes to the Repairs service to improve communication between teams when carrying out multi-team complex repairs	In progress. Repairs are now working from the office to improve communication. Awaiting CSC resource to further improve this through colocation and collaboration. Regular meetings are held with CSC. Single Point of Contact is identified for complex / multi-team cases.	Stevenage Direct Services

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Continue consultation with children and young people to inform significant capital play area improvements	In progress. Consultation undertaken to inform improvements to play areas in Manor and Symonds Green Wards. Consultation completed through Camps Hill School and consultation events at Chells Park and Scarborough Avenue play areas. Feedback currently being collated to inform tenders.	Stevenage Direct Services
Feedback from residents and service data to be used to inform future project work in relation to the Garages Improvement Programme.	In progress. There will likely be an opportunity for residents to share their views on garage provision as part of a potential project within the Garages Improvement Plan to build new garages in high demand areas that will combine waiting list information, void data and a revised pricing strategy. There will be officer and Member consultation to inform this approach.	Stevenage Direct Services
Review customer feedback arrangements in the Digital and Transformation Business Unit to enhance overall insight of feedback received.	In progress. In depth review of customer feedback is in progress as part of the corporate transformation programme. A new customer resolution measure has been introduced. A customer panel will be set up in 2022 to shape the future design of services.	Digital and Transformation
Review of Contract Management training to ensure all staff who are required to monitor contracts are fully aware of Council procedures	In progress. Contract management training opportunities are being provided for staff who are required to monitor contracts.	Digital and Transformation
Carry out a review of the ICT Contracts Register	On hold. This action is currently outstanding due to other IT proprieties.	Digital and Transformation
Development of new Customer Strategy	In progress. In depth discovery work is in progress as part of the corporate transformation programme (heavily focused on the customer experience). This work will drive the design of future Customer Strategy/Transformation Business Case in 2022	Digital and Transformation
Shared Service Agreement between Stevenage Borough Council and East Herts to be finalised	In progress. Agreement has been refreshed and discussed at IT Partnership Board. Some minor amendments are required. The agreement will then be signed off pending current ICT review	Digital and Transformation
Review the model for customer services and customer complaints delivery.	In progress. Review is complete. New model will go live in January 2022	Digital and Transformation
Principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits		
Recruitment to vacant posts in the Finance and Estates service areas.	In progress. Some vacant posts have been filled. There are however still a number of posts in both service areas which need to be recruited to.	Finance & Estates
Review performance measures in relation to monitoring use of agency staff.	Complete. A new measure has been introduced to look at the percentage of agency staff working with the Council for over 12 weeks. A report was presented to Executive outlining improvement mechanisms for more efficient use of agency staff in July 2021 and a further report on progress will be presented later this year.	HR & OD

Review and increase resources as required, as business cases move to projects, to meet the demands of the Town Deal.	In progress. The contract of an existing specialist consultant has been extended by a year to provide full-time expertise. An additional consultant has also been recruited who is supporting with the production of business cases, and a team has been assembled of external companies to support in various disciplines. Growth has been agreed for a new Grade 7 Officer, and an enhanced structure is being developed with Finance & HR to enable the service to have the right delivery resources in place by April 2022 (when all of the business cases have been resolved).	Regeneration
Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Quarterly Shared Procurement Service meetings with East Herts and Hertsmere to be established.	In progress. Initial meetings have been held with Hertsmere. Meetings to be arranged with East Herts.	Finance & Estates
Review of 2022/23 Capital Programme.	This will be carried out as part of the budget setting process in November/December 2021.	Finance & Estates
Complete the review of the Council's Procurement Strategy	Complete. The updated Co-operative Procurement Strategy was approved by Executive in October 2021.	Finance & Estates
Housing data to be uploaded to Housemark once the required information from Finance has been received.	On hold. Due to other priorities in Finance this action has not been progressed.	Housing & Investment
Review of the HRA Business Plan	In progress. The HRA Business Plan is currently under review and will be considered by Executive later this year	Housing & Investment
New Service Plan to be produced in line with corporate template	In progress. Work is progressing in relation to the creation of service plans.	Various
Implement Trade module of Collective (Waste management information system) .	In progress. Finalising collation of data to enable Bartec to set up system for testing. Also liaising with Finance and IT to ensure that necessary integration work can be implemented in-house. Hoping to be able to deliver new system live from April 2022, along with new T&C's for customers.	Stevenage Direct Services
Implement digital solutions for parks bookings, tree management and fly tipping reporting.	In progress. New online parks booking system rolled out in September. Fly-tipping reporting via Dash/Report it. A suitable cloud-based tree management system has been identified. Business case to be developed. A suitable cloud-based cemeteries management system has been identified following discussions with other Herts cemetery officers and discussion with ICCM. Business case being completed. The current system used to support the Vehicle Repair Workshop operations will not be available beyond July 2022. Officers will be looking into suitable replacements for delivery before next summer. A digital play area management system is also	Stevenage Direct Services

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	required. Officers have arranged some demonstrations of systems on the market, and will be developing a business case.	
Implementation of the Collective Streets and Grounds module to be considered. This is partially dependent on delivery of new GIS system.	In progress. Awaiting update on timescales for procurement of new GIS. Grounds and Streets element, if suitable via Bartec, will follow the successful implementation of the Trade Waste module. Officers also to consider alternatives to Bartec <i>Collective</i> which may be better suited to the requirements.	Stevenage Direct Services
Process improvements in relation to Garages to be carried out in collaboration with the Estates service.	Complete. Process map created highlighting areas for improvement	Stevenage Direct Services
Principle E – Developing the entity's capacity, including the capability of its leadership and the individuals within it		
Review of the service workforce plan to fully implement new structure and ensure succession planning .	Not started. This will be taken forward over the next six months.	Constitutional Services
Review job descriptions to ensure they reflect the new Constitutional Services structure	Not started. This will be taken forward over the next six months.	Constitutional Services
Review of training needs for Finance and Estates staff	Not started. This action is outstanding.	Finance & Estates
Job descriptions to be reviewed as part of recruitment process	Complete. The job description for the Head of Technical Finance was reviewed as part of the latest round of recruitment	Finance & Estates
Complete the roll out of the new H&I Induction process.	In progress. The new H&I induction process to be rolled out soon.	Housing & Investment
Carry out a review of the revised Housing and Investment structure to review the effectiveness of the recent H&I Business Unit Review.	In progress. A review of Lettings and Temporary Accommodation took place in 2021. An informal review of Housing Options and Housing Supply has been carried out this year. Resident and Estates, Income Services and part of Specialist Support Services being reviewed over the next few months.	Housing & Investment
Health and Safety Policy to be recirculated to Housing and Investment staff as a reminder.	Complete. Health and Safety training is being delivered to front line officers. Violence and Aggression training is also being arranged for H&I staff in December 2021.	Housing & Investment
Produce a workforce plan for the Regeneration Service.	In progress. Some progress has been made, including identifying a number of learning & development opportunities for staff, most recently involving attendance at a conference in London. The next step is to pull together the individual actions in to an overall plan. This will be done once the resourcing plan has been finalised.	Regeneration
Implementation of Workforce Plan for Stevenage Direct Services	Superseded. This is superseded by the final phase of the service reviews in Repairs & Voids and Operations.	Stevenage Direct Services
Training log to be created to record all training within the service area	Complete. Training logs are no in place and operational.	Stevenage Direct Services

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Service review to be carried out to create an establishment that is more resilient and flexible and less reliant on agency staff and more geared to commercial activity	In progress. Operations - Second phase of the service review agreed at April SLT. After completing JDs, briefings with Portfolio Holder, Leader and Unions, consultations commenced 14 th September. Expected completion for next financial year	Stevenage Direct Services
Review of job descriptions for all posts within the scope of the second phase of the Stevenage Direct Services Business Unit review	In progress. Ops – As above Repairs – JDs have been reviewed and consultation currently taking place. Aiming to implement the changes in February/March 2022.	Stevenage Direct Services
Carry out a review of training across the Digital and Transformation Business Unit	On hold. This action is currently outstanding due to other priorities.	Digital and Transformation
Principle F: Managing risks and performance through robust internal control and strong public financial management		
Complete review of Finance, Facilities and Estates Operational Risk Registers and rescoring to align with new risk scoring.	In progress. Progress has been made in updating operational risk registers.	Finance & Estates
AD Finance and Estates to update the Council's Anti-Fraud and Corruption Policy.	In progress. The Anti-Fraud and Corruption Policy has been reviewed and is being considered at November 2021 Audit Committee	Finance & Estates
Review of performance measures for 2021/22 reporting	Complete. Performance measures for 2021/22 have been reviewed and agreed by July Executive	Housing Development
Review of Performance measures for 2021/22 reporting	Complete. Measures were reviewed at the beginning of 2021 and a new measure identified for the use of agency staff	HR & OD
Staff to undertake annual refresher of GDPR e-learning	Complete. GDPR has been published as refresher training on iLearn. Report on compliance has been provided to the Information Governance Manager	HR & OD
GDPR refresher training to be carried out.	In progress. This is underway and has been cascaded via line managers	Regeneration
Review of Performance measures for 2021/22 reporting	Complete. New indicators introduced for customer resolution and digital uptake and ICT uptime. Data quality is being reviewed to improve ICT uptime.	Digital and Transformation
Carry out a review of risk management arrangements for the shared ICT service	In progress. A detailed review is outstanding but operational and strategic risk registers are in place and risks are reviewed at the IT Steering Group/IT Partnership Board by exception	Digital and Transformation
Shared Legal Service Partnership Agreement to be updated to reflect GDPR requirements	Postponed. The Partnership agreement to be updated when the supporting SLA is updated in January 2022. To ensure GDPR compliance, a Record of Data Processing form is completed for each file opened by Legal Services.	Shared Legal Service
Complete the review of documentation dating back to before the transfer to the new Shared Legal service under the advice of the Borough Solicitor and Lead Lawyer for the Shared Legal Service.	In progress. This has been delayed due to staff working from home due to Covid. Work to review the documentation will be resuming soon now that staff are returning to the office.	Shared Legal Service

Principle G – Implementing good practice in transparency

Update Local Land Assets information on the Council's Data Transparency Code page once the information required to do this is available	In progress. The Data Manager is now in post to review the Asset Management system. A decision to be taken over the next few months as to whether the current system is fit for purpose.	Finance & Estates
Ensure the Implementation of the audit recommendations arising from the February 2021 audit of PCI/DSS Compliance:	In progress. Further work is required to move towards compliance. In the meantime, operatives no longer accept telephone payments unless under exceptional circumstances	Finance & Estates/ Digital and Transformation
Salary information provided on the Data Transparency page of the Council's website to be reviewed in line with the requirements of the Data Transparency Code.	In progress. Organisation chart containing salary information has been updated on the Council's website in line with the requirements of the Code. Salary information is published in the Annual Accounts.	HR & OD

Meeting: Audit Committee / Executive / Council **Agenda Item:**

Portfolio Area: Resources



Date: 10 November 2021 / 17
November 2021 / 15 December
2021

2021/22 MID YEAR TREASURY MANAGEMENT REVIEW

NON-KEY DECISION

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1. PURPOSE

- 1.1 To update Members on the Treasury Management activities in 2021/22 and review effectiveness of the 2021/22 Treasury Management and Investment Strategy including the 2021/22 prudential and treasury indicators.

2. RECOMMENDATIONS

- 2.1 That Council to approve the 2021/22 Treasury Management Mid-Year review.
- 2.2 That subject to any comments from Executive and the Audit Committee, recommend Council to approve the latest approved Countries for investments (Appendix D).
- 2.3 That the updated authorised and operational borrowing limits are approved (paragraph 4.4.7).
- 2.4 That the impact of the outstanding decision set out in paragraph 4.1.4 be noted.

3. BACKGROUND

- 3.1 This report covers one of three reporting requirements under the Prudential and Treasury Management Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), the other reports being;

- Annual Treasury Strategy (in advance of the year) (last reported to Council 24 February 2021)
- Annual Treasury Management Review after the year end (2020/21 was reported to Council 13 October 2021)

3.2 In December 2017, CIPFA revised the Code to require, all local authorities to report on:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed;
- The implications for future financial sustainability.

These elements are covered in the annual Capital Strategy reported to Council in February each year.

3.3 This report summarises:

- Capital expenditure and financing for 2021/22;
- The overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Reporting of the required prudential and treasury indicators, including the impact of the expenditure on the Council's underlying indebtedness (the Capital Financing Requirement);
- Update on the Treasury Management Strategy Position;
- An economic update for the first part of 2021/22.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 The Council's Capital Expenditure and Financing 2021/22

4.1.1 Capital expenditure¹ can be financed either by capital resources the Council has on its balance sheet (e.g. capital receipts and capital grants) or by making a revenue contribution to capital. If sufficient capital resources are not available to fund the expenditure the Council would need to borrow to meet the funding gap. This borrowing may be taken externally in new loans or internally from cash balances held by the council (see also 4.3.3). The need to borrow is measured and reported through the Prudential Indicators.

4.1.2 The Treasury Management Strategy and Prudential Indicators for 2021/22 were originally approved by Council on the 24 February 2021. Since then, capital budget changes have been approved and the Prudential Indicators updated in the 2020/21 Annual Treasury Management Review (approved by Council 13 October 2021). The Treasury Management Mid-Year Review Indicators have been updated based on the 1st and 2nd quarter capital programme reported to Executive (20 October 2021).

¹ Council expenditure can be classified as capital when it is used to purchase assets with a life of more than one year, exceeds £5,000 in value and meets the guidelines laid out in CIPFA accounting practices.

4.1.3 Table One (see below) shows the original capital programme, the revised capital programme (approved by Executive 20 October 2021) and financing.

Table One: 2021/22 Capital Expenditure and Financing		
	2021/22 Original Capital Strategy (Council February 2021) £'000	2021/22 Revised Mid-Year Review (Q1&Q2 Capital Strategy -Executive October 2021) £'000
Capital Expenditure:		
General Fund Capital Expenditure	17,400	22,322
HRA Capital Expenditure	52,488	53,857
Total Capital Expenditure	69,888	76,180
· Capital Receipts	(14,958)	(17,828)
· Capital Grants / Contributions	(9,131)	(13,167)
· Capital Reserves	(2,211)	(2,356)
· Revenue contributions	0	(88)
· Major Repairs Reserve	(11,798)	(8,238)
Total Resources Available	(38,097)	(41,676)
Capital Expenditure Requiring Borrowing	(31,790)	(34,503)

4.1.4 It should be noted that at the time of writing the report, a decision was yet to be made regarding the demolition costs for Swingate House of £900K. The Council may decide to incur these costs and so the capital programme would be £900K higher, or the site would be sold with these works still to be undertaken and this would be reflected in the capital receipt achieved. A report is due to be taken in December which will include this matter.

4.2 The Council's overall borrowing position.

4.2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR)². Whether physical borrowing is taken out depends on the level of cash balances held by the Council. The treasury service manages the Council's cash position to ensure sufficient cash is available to meet the capital payments, based on the Council's Capital Strategy and its Treasury Management Strategy. This may be through internal borrowing from utilising cash balances held by the Council in the short to medium term or external borrowing such as from the Government, through the Public Works Loan Board (PWLB), or the money markets.

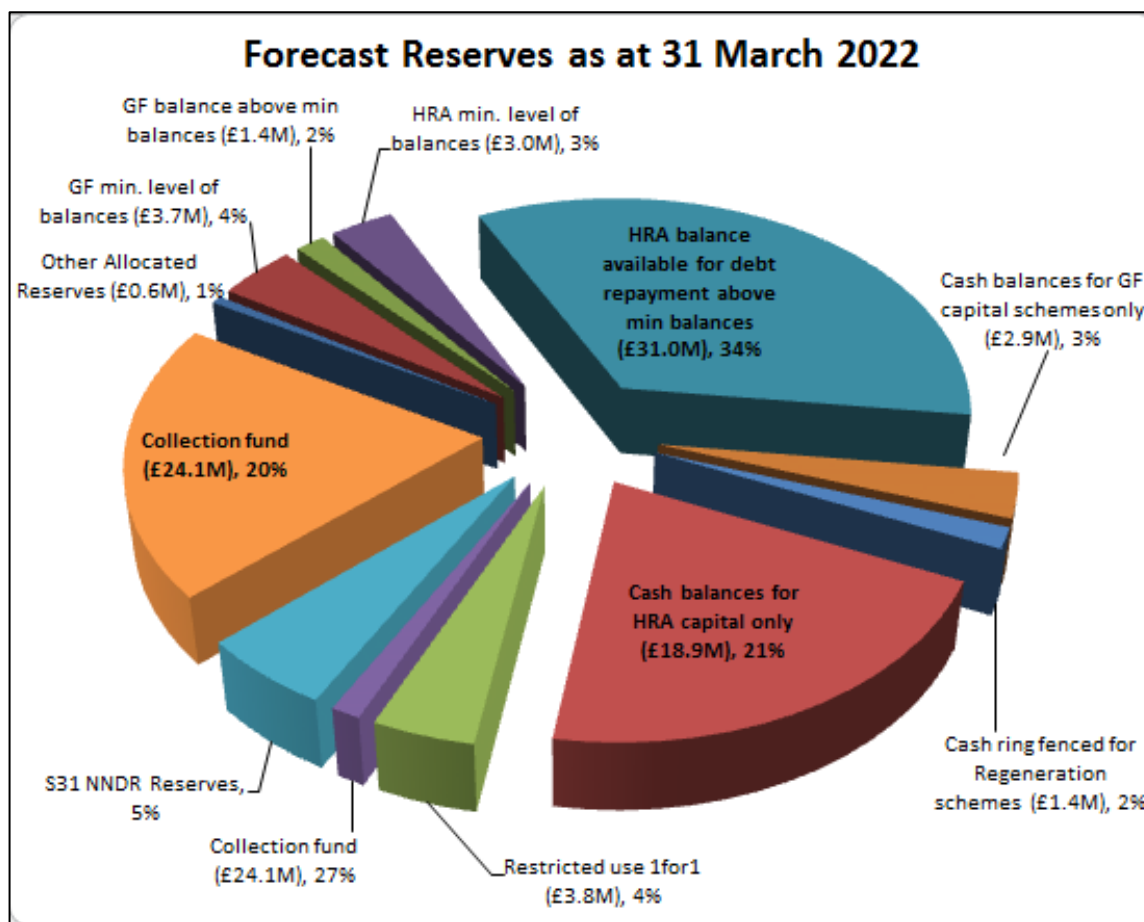
² Capital Financing Requirement (CFR) represents the amount of debt the Council needs to/has taken to fund the capital programme after debt repayments and Minimum Revenue Provision (MRP) are taken into account

- 4.2.2 The 2021/22 Capital Strategy identified the need for borrowing for financing elements of the capital programme. The Council has not undertaken any new external borrowing to date in 2021/22.
- 4.2.3 In 2021/22 the average cash holding between April and September was £77.5 Million (£62.0 Million April to September 2020/21). While investment returns are low the “internal” borrowing rate is significantly cheaper than the cost of external borrowing and remains a prudent use of the Council’s cash balances, unless it is prudent to secure long term borrowing in accordance with the HRA Business Plan.
- 4.2.4 As at the 30 September 2021 the Council had total external borrowing of £218,834,687 which is projected to increase to £252,432,312 by 31 March 2022 if all approved borrowing is taken as per the revised capital programme approved by Executive 20 October 2021.
- 4.2.5 The General Fund currently has £2,150,687 external borrowing with the PWLB, comprising an Equal Instalments of Principal (EIP) loan with the final principal repayment in February 2023, and a Maturity loan of £1.756 Million which matures in March 2028.
- 4.2.6 The HRA has external borrowing of £216,684,000 with the PWLB, with the majority of the HRA debt (£194,911,000) taken out in March 2012 to finance the payment required to central government for self-financing. This debt was arranged over a number of loans at fixed rates and with varying maturities and is not impacted by the recent changes in PWLB rates.
- 4.2.7 The HRA borrowing includes £7,763,000 used to fund the pre-2012 Decent Homes programme. This debt was called ‘supported borrowing’ under the former HRA subsidy system but now forms part of the HRA debt portfolio. An additional £10,000,000 was taken in March 2021 to fund additional Decent Homes expenditure.
- 4.2.8 Since the lifting of the HRA Debt Cap, which was formerly £217,685,000, HRA borrowing limits are based on affordability rather than legislation. These limits are now reviewed as part of the annual HRA Business Plan and through annual budget setting. An MTFS update for the HRA is being reported to Executive on 8 December 2021 as part of the Draft Budget for 2022/23.

4.3 Cash balances and cash flow management

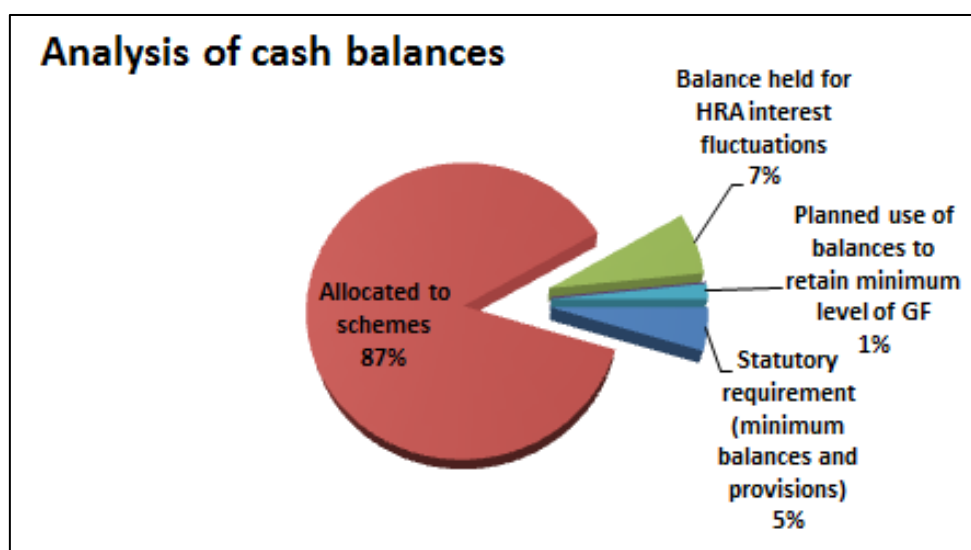
- 4.3.1 As at 1 April 2021 cash balances held by SBC totalled £73.15 Million. The current revised cash balance expected to be held as at 31 March 2022 is £79.5 Million. The breakdown of these cash balances is shown in the following chart.

Chart One: Cash Balances expected as at 31 March 2022



4.3.2 These cash balances can be further analysed between allocated to schemes, held for statutory requirements and held for third parties. This identifies that all of the £79.5 Million of cash resources have been allocated. Unless allocated reserves are no longer needed in the future, there are **currently no cash resources available** for new projects.

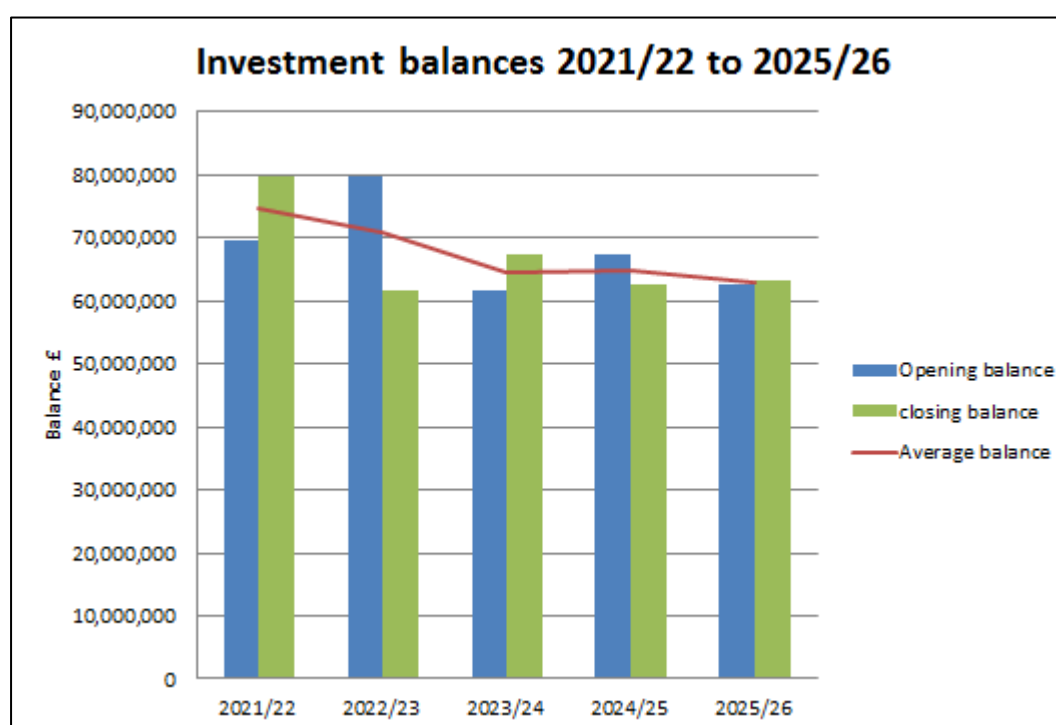
Chart Two: Analysis of Cash Balances



4.3.3 Cash investment balances are expected to be £79.5 Million by 31 March 2022 (reserves and balances of £90.7 Million less actual internal borrowing of £11.2 Million), but this is dependent on current spending projections and approved borrowing included in the capital strategy and current HRA business plan (General Fund - £4.182 Million and HRA - £29.547 Million) for 2021/22. Decisions as to when to take this borrowing will be considered based on cash balances and anticipated interest rates.

4.3.4 The forecast investment balances to 2025/26 has been updated to reflect the latest General Fund MTFs and HRA MTFs projections and the revised capital programme. Note that, like the pie chart in paragraph 4.3.2, the balances in the chart below includes those being held on behalf of third parties.

Chart Three: Investment Balances forecast



4.4 Prudential Indicators

4.4.1 It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (which measures affordability limits), are included in the approved Treasury Management Strategy and an update on those indicators is included in this report. During the year to date, the Council has operated within the treasury and prudential indicators set out in that strategy. Further explanation of key prudential indicators is given below and is also shown in Appendix A.

4.4.2 **Borrowing and the 2021/22 Capital Financing Requirement (CFR)** - The Council's underlying need to borrow for capital expenditure is referred to as the Capital Financing Requirement (CFR). The Council's original estimate and latest CFR for the year is shown in the table below. The estimate of the CFR for 2021/22 has been updated for the capital strategy approved by Members (20 October 2021 Executive). Further updates may be required pending completion of the external audit of the 2019/20 and 2020/21 accounts.

4.4.3 The HRA MTFS update (HRA 2021/22 - 2025/26) will be reported to the 17 November 2021 Executive, and the Final HRA and Rent Setting Report 2022/23 to Executive to the 19 January 2022 Executive and to Council on 26 January 2022. The CFR and Prudential Indicators included in this report have been updated to reflect the current projections for the HRA revised business plan.

Table Two: Capital Financing Requirement 2021/22			
	2021/22 Original: Annual TM Strategy (Approved Council February 2021)	2021/22 Revised: Annual TM Review of 2020/21 (Approved Council October 2021)	2021/22 Revised: Mid- Year Review (Executive November 2021)
CFR Calculation	£'000	£'000	£'000
Opening Balance	264,817	266,800	266,800
Closing Capital Financing Requirement (General Fund)	31,010	44,372	37,372
Closing Capital Financing Requirement (Housing Revenue Account)	264,076	262,144	262,144
Closing Balance	295,086	306,516	299,516
Increase/ (Decrease)	30,269	39,716	32,716

4.4.4 Total debt repayments made in the first half of 2021/22 relating to principle on PWLB General Fund loans were £131,579 (paid in August). A further repayment of £131,579 will be made in February 2022 in relation to General Fund debt.

4.4.5 The Council could further reduce its CFR by:

- The application of additional capital financing resources (such as unapplied capital receipts) if available; or
- Charging more than the statutory revenue charge (Minimum Revenue Provision (MRP)) each year through a Voluntary Revenue Provision (VRP) which would increase the cost to the General Fund

4.4.6 The **net borrowing position** of the Council at 31 March 2022 is estimated to be **£172.8 Million** (total borrowings/loans of £252.4M less total investments held of £79.6 Million). This updated position also reflects the current projections for the HRA revised business plan.

4.4.7 The **operational boundary and authorised limit** refer to the borrowing limits within which the treasury team operate. To date there have been **no breaches** of either limit in 2021/22).

4.4.8 At the time of publication of this report the external audit of the 2019/20 accounts has yet to be completed and the external audit of the 2020/21

accounts has yet to commence. Any changes following the completion of the external audits will be reported to Members in subsequent reports.

4.4.9 **Minimum Revenue Provision (MRP)**³ – In 2021/22 the MRP calculated on previous years' borrowing is £465,491, however there will be no MRP charge to the General Fund with respect to borrowing for regeneration assets of £193,703, due to the overpayment calculated following the MRP review, which reviewed the asset lives used in calculating MRP. Based on the current forecasts this 'MRP holiday' period for regeneration assets will result in no MRP charges to the General Fund until 2025/26. Further detail can be found in Appendix E (MRP Policy).

4.4.10 MRP needs to be calculated regardless of whether actual external borrowing has been taken and hence differs from the treasury management arrangements, the latter considers utilising cash balances when borrowing rates are higher than investment interest rates.

4.4.11 The **ratio of financing costs to net revenue stream** is equal to General Fund interest costs divided by the General Fund net revenue income from Council Tax and Business Rates.

4.4.12 The treasury management indicators for 2021/22 onwards have been calculated based on the 1st and 2nd quarter capital programme reported to Executive 20 October 2021. There will be subsequent updates to the capital programme including the capital bidding process for the period 2022/23 to 2026/27 and as such the data relating to future years is indicative only and will be subject to change. The full list of Treasury Prudential Indicators is shown in Appendix A.

4.5 Update on Treasury Management Strategy Position 2021/22

4.5.1 The Council's debt and investment position is managed by the treasury management section to ensure adequate liquidity for revenue and capital activities. In addition, investment decisions are based on the security of the investments and spread over a number of counterparties to manage the Council's exposure to risk.

4.5.2 The Council's **average investment returns** are modest due to the historically low Bank of England Base Rate which is currently 0.10% and the risk appetite in the treasury management strategy. As at 30 September 2021 the 2021/22 average rate of interest being earned on investments was 0.36% (compared to 0.98% earned in 2020/21). This exceeded the 7 day LIBID benchmark rate of 0.00% (source: LINK Asset Services 21 October 2021).

4.5.3 At current interest rates it is still prudent to utilise the Council's cash balances (as shown in paragraph 4.3.1) for short-term internal borrowing. However, PWLB borrowing costs will be kept under review and officers will determine

³ MRP- The Council must base its borrowing decisions in accordance with the Prudential Code which requires the Council to demonstrate a need to borrow and to show the cost of that borrowing for the General Fund is affordable. The Council's MRP policy, as required by CIPFA guidance, is approved annually by Council as part of the Treasury Management Strategy. The calculation of MRP is based upon prior years' borrowing requirement and the life of the assets for which borrowing was required.

whether it may be prudent to take some borrowing at lower interest rates based on the forecast reduction of future cash balances and borrowing identified in the HRA business plan. The decision and timing of when to borrow is being monitored by officers.

4.5.4 The Council's treasury position for the first half of year was as follows:

Table three: Treasury Position 2021/22						
	30 Sep 2021 Principal £'000s	Rate / Return %	Average Life (Yrs)	31 Mar 2022 Principal £'000s	Rate / Return %	Average Life (Yrs)
Fixed rate loans - PWLB	218,835	3.34	12.07	218,703	3.34	11.6
General Fund Prudential Borrowing				4,182		
HRA Borrowing				29,547		
Total Borrowing	218,835	3.37	12.07	252,432	3.34	11.6
CFR				299,515		
less finance lease and other technical adjustments				(29,982)		
less self-financing agreement				(5,929)		
Over/(under) borrowing*				(11,172)		
Investments Portfolio	74,930	0.36	N/A	79,490	0.31	N/A

* financed by internal borrowing (£3.047Million HRA £8.125Million General Fund)

4.5.5 The maturity structure of the debt portfolio was as follows (see also Appendix B):

Table four: Maturity of Debt Portfolio for 2020/21 and 2021/22		
Time to maturity	31 March 2021 Actual £'000's	30 September 2021 Actual £'000's
Maturing within one year	263	263
1 year or more and less than 2 years	263	132
2 years or more and less than 5 years	500	500
5 years or more and less than 10 years	49,656	49,656
10 years or more	168,284	168,284
Total	218,966	218,835

4.5.6 There are two investments with **maturities over one year** as detailed below:

Table five: Maturities Over One Year					
Counterparty	Country	Rating	Deposit amount	Start date	Maturity on
Cambridgeshire County Council	UK	AA	5,000,000	12/04/2021	12/04/2023
Bury MBC	UK	AA	2,300,000	18/05/2020	18/11/2024
			7,300,000		

4.5.7 All other investments held during the first half of 2021/22 are due to mature within one year. A summary of the Council's exposure to fixed and variable rate investments is shown below in Table Six. (See also Appendix B).

Table Six : Fixed and Variable Rate Investment Totals		
	31 March 2021 Actual	30 September 2021 Actual
	£'000's	£'000's
Fixed rate principal	41,000	47,000
Variable rate principal	28,700	27,930
Total	69,700	74,930

4.5.8 Since the last Treasury report, no further Money Market funds have been added to the portfolio, however an application is in progress to add the CCLA Public Sector Deposit Fund due to the recent closure of the Amundi Money Market Fund.

4.5.9 There have been **no breaches** of treasury **counter party limits**, with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2021/22 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during 2021/22 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to the timing of taking out new loans would breach other counterparty limits.

4.5.10 The list of "Approved Countries for Investments" is detailed in Appendix D.

4.5.11 **Money Market Fund Regulatory Change** took place in early 2019, and Liquidity (non-government) Funds have been converted from Constant Net Asset Value (CNAV) funds to Low Volatility Net Asset Value (LVNAV) pricing. Government-type funds will remain as CNAV funds under the new regulations. This changes have no impact on the Council's Treasury Management Strategy.

4.5.12 As part of the Council regeneration programme and financial security objectives officers have establishing special purpose vehicles (SPV) to deliver regeneration in the town and to improve the offer in the private rented sector. These SPV's have included a Limited Liability partnership and a wholly owned company. As completely separate legal entities the board of Directors of tv

needed to delegate authority for the treasury management function to the Council, for officers to invest monies on behalf of the SPV's subject to Director's delegation. Any sums invested on behalf of these SPV's are to be done in accordance with the Council's own treasury management policies. No such investments have been made on their behalf to date.

4.6 Economic Review & Interest Rate Outlook

4.6.1 UK Growth

The Bank of England's Monetary Policy Report August 2021 reports that UK GDP is expected to have risen by 5% in 2021 Q2, leaving it around 4% below its pre-pandemic level and slightly stronger than expected in the May Report. GDP is expected to grow by around 3% in Q3, somewhat weaker than expected in the May Report, with a small negative impact from recent developments in the pandemic. UK GDP is projected to recover further over the remainder of the year, reaching its pre-pandemic level in 2021 Q4, with demand growth boosted by a waning impact from Covid. Further out, the pace of GDP growth is expected to slow towards more normal rates, partly reflecting the gradual tightening in the stance of announced fiscal policy

4.6.2 Inflation and Bank Rate

Twelve-month CPI inflation fell to 3.1% in September from 3.2% in August. CPI inflation is expected to remain above the 2% target. The latest forecast from the OECD (the Organisation for Economic Co-operation and Development) is that inflation will be running at about 3% at the end of 2022. Inflation has picked up around the world due to higher costs of raw materials, constraints on the supply of goods, stronger consumer demand as economies reopen, and prices bouncing back from drops during the pandemic in some sectors. At its meeting ending on 24 September 2021, the MPC voted unanimously to maintain Bank Rate at 0.1%, which has been the rate since 19 March 2020 in response to the Coronavirus pandemic. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, however the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. Our current forecasts are for the rise to 0.25% to take place in June.

4.6.3 Wage inflation

Following the August MPC meeting, the Governor of the Bank of England Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." This flagged up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer.

4.6.4 Brexit

The UK left the European Union on 31 January 2020 and an exit deal was agreed between the UK and the EU just before the end of the transition period on 31 December 2020. The initial agreement with the EU only covered trade, so further work remains on the services sector where temporary equivalence has been granted in both directions between the UK and EU and needs to be formalised permanently. Trade agreements with some countries and trading blocs took effect from 1 January 2021. Other agreements are still under discussion with countries where trading agreements were in place before 1 January 2021, and the Government put in place a UK global tariff and is trading with other World Trade Organisation (WTO) members on WTO terms, while trade with eligible developing countries is taking place under the UK's Generalised Scheme of Preferences. Brexit is likely to lead to a long-term structural change in the UK economy, impacting areas such as trade, investment and immigration.

4.6.7 Budget and Spending Review 2021

On 27 October 2021 the Chancellor delivered his Budget and Spending Review 2021, including the Office for Budget Responsibility (OBR) forecasts.

The main points from the Chancellor's Budget Statement that are relevant to local government are as follows:

- New grant funding for local government has been announced over the next three years, worth £4.8bn. The details of how this funding will be distributed and which services it will be allocated to were not included in the speech. There was also no announcement on funding reform, and no confirmation that the reset would be delayed beyond 1 April 2022.
- The Spending Review document confirms that the Council Tax referendum limit is expected to remain at 2% per annum for the Spending Review Period, with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.
- The Business Rates multiplier will, again, be frozen, rather than rising by inflation, as in 2021/22. It is expected that this will be funded by government through a further increase to the multiplier cap compensation grant. The conclusion of the review of Business Rates was also published on 27 October. This included 3-yearly revaluations from 2023, and a new Business Rates improvement relief, which, from 2023, will allow businesses to make improvements and pay no extra business rates for 12 months (it is expected that this relief would be funded for local government).
- Retail, Hospitality and Leisure relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. This is £5,000 higher than the cap currently applicable to the 66% relief to businesses, which were not (or would not have been) required to close on 5 January 2021. The Government estimates the relief will be worth £1.7bn to business. Again, it is expected that this will continue to be fully funded for local government.

- £560m will be provided for youth services as part of the levelling up agenda. There will also be new funding for community football pitches (£200m+), to support museums and libraries (£800m), and for 100 new 'pocket parks' on small areas of derelict land.
- The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased to £9.50 per hour, accepting the Low Pay Commission's recommendation.
- Total departmental spending will increase over this Parliament by £150bn, or 3.8% per annum in real terms. There will be a real terms rise in spending for every single department.
- The OBR forecasts predict continued higher inflation, with CPI expected to average 4% over the coming year. The Government consider that this high inflation relates to demand exceeding supply (as demand has recovered more quickly than suppliers can re-mobilise, as economies reopen) and also to the surge in demand for energy, despite continuing disruptions to supply.
- Economic recovery is now expected to be quicker, with a return to pre-COVID levels expected at the turn of the year (earlier than was expected in March). The estimates of the impact from COVID have been reduced from 3% to 2%, and the peak unemployment is now expected to be 5.2% (down from the 12% predicted in March).
- The government will publish a new Charter for Budget Responsibility (which will be subject to a vote in Parliament). The Charter will include two rules, which must be met by the third year of a fiscal period: that underlying Public Sector Net Debt (excluding the Bank of England) must be falling as a percentage of GDP, and, in normal times, the state should only borrow to invest (with everyday spending being paid through taxation). Today's announcement meets these rules. There will also be a target for 3% of GDP to be committed to capital spending.
- Other announcements include an intention to return aid spending to 0.7% in 2024/25 (before the end of the Parliament); reforms to alcohol duties (which will simplify the system using a basic principle that 'the stronger the drink, the higher the rate'); reductions to Air Passenger Duty for domestic flights and a new 'super long haul' rate introduced; a further freeze to fuel duty; and a reduction to the Universal Credit taper from 63% to 55% (which is the amount that Universal Credit falls as income rises from work).

5. IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is of a financial nature and reviews the treasury management function for 2021/22 to date. Any consequential financial impacts of the Strategy will be incorporated into the Capital Strategy updates and subsequent quarterly budget monitoring reports.

- 5.1.2 During the financial year to date officers have operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

5.2 Legal Implications

- 5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy Indicators are intended to ensure that the Council complies with relevant legislation and best practice.
- 5.2.2 There have been no changes to PWLB borrowing arrangements since the last Treasury report, however there is ongoing consultation on changes to the Prudential and Treasury Management codes. Officers will ensure that any changes are reflected in treasury operations and reporting requirements.

5.3 Risk Implications

- 5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. Should these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.
- 5.3.2 There remains uncertainty on the impact of exiting the EU on UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.
- 5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.
- 5.3.4 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counterparties. These are designed to take into account the relative risk of investments and also to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.4 Equalities and Diversity Implications

- 5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.
- 5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.6 Climate Change Implications

- 5.6.1 The council's investment portfolio is sterling investments and not directly in companies. However the treasury management team will review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team will align with the Councils ambition to attempt to be carbon neutral by 2030.

BACKGROUND DOCUMENTS

BD1 Prudential Code Indicators and Treasury Management Strategy 2021/22
(24 February 2021 Council)

BD2 Annual Treasury Management Review of 2020/21 (13 October 2021 Council)

APPENDICES

- Appendix A – Prudential Indicators for Mid Year Review.
- Appendix B – Investment and Loan Portfolios
- Appendix C – Specified & Non-Specified Investment Criteria
- Appendix D – Approved Countries for Investments
- Appendix E – MRP Policy

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Appendix A	2021/22 Treasury Management Strategy - Mid year review											
Treasury Management Prudential Indicators												
	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25
Capital Expenditure (Based on Q1 & Q2 Capital report October 2021):	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund	17,400	20,296	22,322	20,145	20,251	20,522	26,137	26,127	25,976	14,795	14,795	14,735
HRA	52,488	58,263	53,857	56,858	57,209	61,615	37,256	37,186	37,186	28,748	28,818	28,818
Total	69,887	78,559	76,180	77,004	77,460	82,137	63,393	63,314	63,162	43,543	43,613	43,553
	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25
Ratio of financing costs to net revenue stream:	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	%	%	%	%	%	%	%	%	%	%	%	%
General Fund Capital Expenditure	4.78%	4.90%	5.06%	5.28%	5.38%	5.56%	6.12%	6.26%	6.46%	6.73%	6.91%	7.13%
HRA Capital Expenditure	16.82%	16.79%	32.10%	17.09%	17.30%	33.90%	17.08%	17.52%	34.38%	16.16%	16.57%	32.52%
General Fund: Net revenue stream is the RSG, NNDR grant and Council Tax raised for the year.												
HRA: The net revenue stream is the total HRA income shown in the Council's accounts from received rents, service charges and other incomes. The ratio of financing costs to net revenue stream reflects the high level												
	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25
Authorised Limit for external debt	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	45,294	51,372	51,606	51,126	57,298	57,438	52,484	58,511	58,795	51,730	57,612	58,042
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	272,076	270,144	270,144	287,716	285,784	285,784	299,696	297,764	297,764	299,696	297,764	297,764
Total	332,371	336,515	336,750	353,843	358,082	358,222	367,180	371,275	371,559	366,426	370,376	370,806
The authorised limit in that it is the level up to which the Council may borrow without getting further approval from Full Council. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The authorised limit allows for £8m headroom above the Operational Boundary (£2m General Fund and £6m HRA), which is in addition to our capital plans.												
	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25
Operational Boundary for external debt	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Borrowing - General Fund	43,294	49,372	49,606	49,126	55,298	55,438	50,484	56,511	56,795	49,730	55,612	56,042
Borrowing - Queensway residential	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Borrowing - HRA	266,076	264,144	264,144	281,716	279,784	279,784	293,696	291,764	291,764	293,696	291,764	291,764
Total	324,371	328,515	328,750	345,843	350,082	350,222	359,180	363,275	363,559	358,426	362,376	362,806
The operational boundary differs from the authorised limit in that it is the level up to which the Council expects to have to borrow. The Council may need to borrow short term for cash flow purposes, exceeding the operational boundary. The operational boundary allows for £7m headroom in addition to our capital plans (£5m General Fund and £2m HRA) plus the additional borrowing facility that may be drawn down by the Housing WOC.												
	2021/22	2021/22	2021/22	2022/23	2022/23	2022/23	2023/24	2023/24	2023/24	2024/25	2024/25	2024/25
Gross & Net Debt	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross External Debt - General Fund	6,444	13,201	6,201	12,710	19,570	12,335	14,770	23,351	14,395	14,770	23,351	14,395
Gross External Debt - HRA	257,089	246,231	246,231	272,729	261,871	261,871	284,709	273,851	273,851	284,709	273,851	273,851
Gross External Debt	263,533	259,432	252,432	285,439	281,441	274,207	299,479	297,203	288,247	299,479	297,203	288,247
Less Investments	(58,969)	(59,121)	(79,591)	(49,005)	(40,078)	(61,452)	(47,604)	(42,885)	(66,943)	(42,297)	(41,199)	(62,365)
Net Borrowing	204,564	200,311	172,842	236,434	241,363	212,755	251,875	254,318	221,304	257,181	256,004	225,881
The Gross External Debt is the actual debt taken out by the Council plus any relevant long term liabilities.												
The Net Borrowing is defined as gross external debt less investments. The net borrowing requirement may not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the												
	44651	44651	44651	45016	45016	45016	45382	45382	45382	45747	45747	45747
Capital Financing Requirement	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22	Original February 2021	Revised Cap Outturn Aug 21 Exec	Revised Mid year review 21- 22
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Financing Requirement GF	31,060	44,372	37,372	36,892	50,298	43,203	38,249	51,511	44,561	37,495	50,612	43,807
Capital Financing Requirement HRA	264,076	262,144	262,144	279,716	277,784	277,784	291,696	289,764	289,764	291,696	289,764	289,764
Total Capital Financing Requirement	295,136	306,515	299,515	316,608	328,082	320,987	329,945	341,275	334,325	329,191	340,376	333,571
The Capital Financing Requirement (CFR) reflects the amount of money the Council would need to borrow to fund it's capital programme. This is split between the Housing Revenue Account CFR (HRACFR) and the General Fund CFR (GFCFR).												

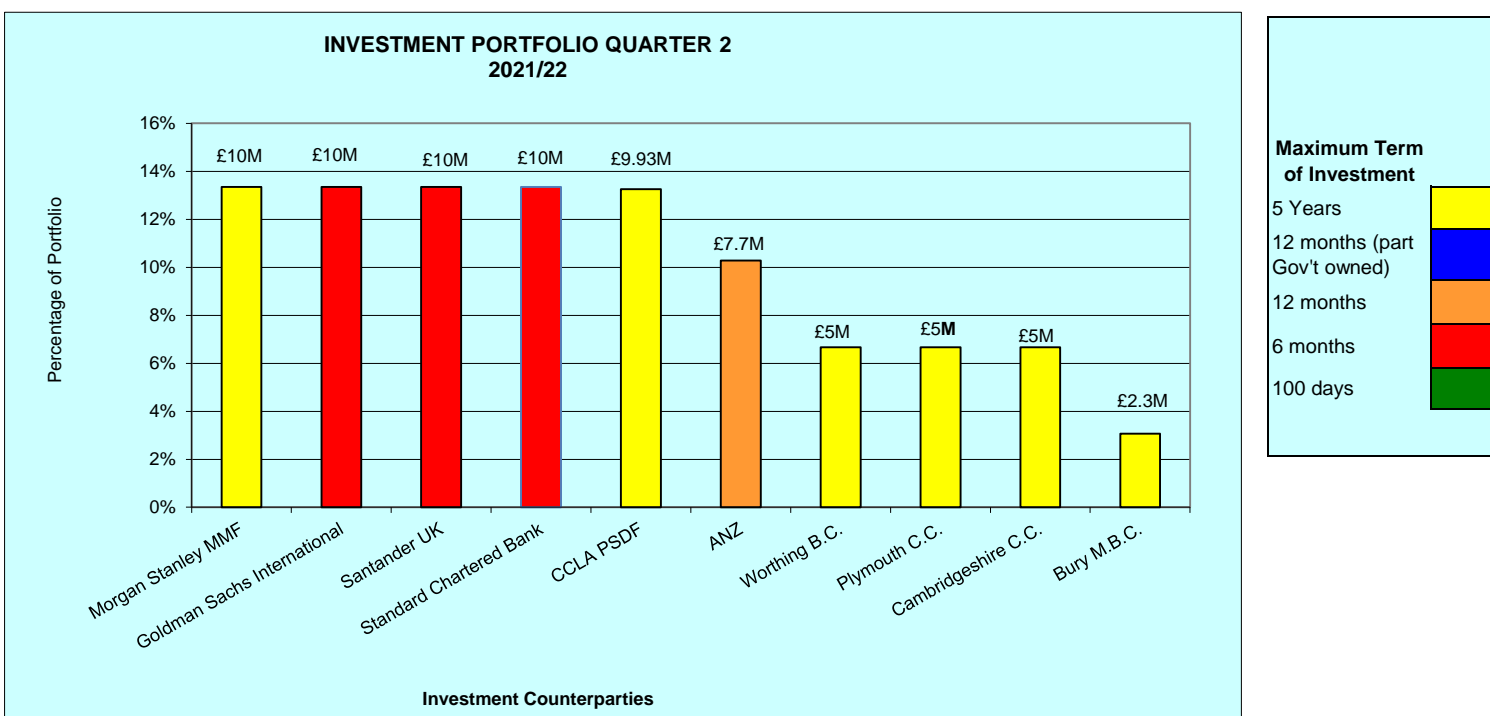
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INVESTMENT PORTFOLIO QUARTER 2 (30th September 2021)

Appendix B

Average interest rate - 2020/21	0.98%
Average interest rate - 2021/22 Q2	0.39%
Bank of England Bank Rate	0.36%

<u>Borrower</u>	<u>Nation</u>	<u>Sovereign Rating</u> <u>(Fitch)</u>	<u>Amount £'s</u>	<u>From</u>	<u>To</u>	<u>Rate %</u>
<u>Money Market Funds (Instant Access)</u>						
CCLA PSDF	UK		9,930,000			0.02
Morgan Stanley MMF	UK		10,000,000			0.03
<u>60 Day Notice</u>						
Santander UK	UK	AA-	1,000,000			0.35
<u>95 Day Notice</u>						
Standard Chartered Bank	UK	AA-	7,000,000			0.37
<u>Fixed Term Deposit</u>						
Standard Chartered Bank	UK	AA-	3,000,000	26-May-21	26-Nov-21	0.20
Goldman Sachs International	UK	AA-	2,000,000	27-May-21	27-Nov-21	0.28
Plymouth City Council	UK	AA-	5,000,000	30-Nov-20	29-Nov-21	0.25
Santander UK	UK	AA-	1,000,000	27-May-21	29-Nov-21	0.20
Worthing Borough Council	UK	AA-	5,000,000	05-Dec-19	06-Dec-21	1.50
Santander UK	UK	AA-	8,000,000	30-Jun-21	30-Dec-21	0.20
Goldman Sachs International	UK	AA-	8,000,000	14-Jul-21	31-Dec-21	0.18
Australia & New Zealand Banking Corp (ANZ)	Aus	AAA	2,700,000	15-Sep-17	14-Sep-22	0.19
Australia & New Zealand Banking Corp (ANZ)	Aus	AAA	5,000,000	27-Sep-21	26-Sep-22	0.25
Cambridgeshire C.C.	UK	AA-	5,000,000	13-Apr-21	12-Apr-23	0.44
Bury M.B.C.	UK	AA-	2,300,000	18-May-20	18-Nov-24	2.00
			74,930,000			



LOAN PORTFOLIO QUARTER 2 (30th September 2021)

Decent Homes Borrowing

<u>Lender</u>	<u>Type</u>	<u>Rate %</u>	<u>Amount £'s</u>	<u>From</u>	<u>To</u>	<u>Life of Loan</u>
PWLB	Fixed Rate/Maturity	4.75	2,000,000	04/03/2010	04/03/2035	25 years
PWLB	Fixed Rate/Maturity	4.28	1,800,000	25/05/2010	25/05/2035	25 years
PWLB	Fixed Rate/Maturity	4.24	963,000	17/08/2010	17/08/2035	25 years
PWLB	Fixed Rate/Maturity	4.65	3,000,000	25/03/2010	25/09/2035	25 1/2 years
PWLB	Fixed Rate/Maturity	1.72	510,000	25/03/2020	25/03/2045	25 Years
PWLB	Fixed Rate/Maturity	1.60	3,500,000	25/03/2020	25/03/2037	17 years
PWLB	Fixed Rate/Maturity	2.06	10,000,000	30/03/2021	30/03/2041	20 years
			21,773,000			

Self Financing Borrowing

<u>Lender</u>	<u>Type</u>	<u>Rate %</u>	<u>Amount £'s</u>	<u>From</u>	<u>To</u>	<u>Life of Loan</u>
PWLB	Fixed Rate/Maturity	2.92	500,000	28/03/2012	28/03/2026	14 years
PWLB	Fixed Rate/Maturity	3.01	8,000,000	28/03/2012	28/03/2027	15 years
PWLB	Fixed Rate/Maturity	3.08	8,700,000	28/03/2012	28/03/2028	16 years
PWLB	Fixed Rate/Maturity	3.15	9,600,000	28/03/2012	28/03/2029	17 years
PWLB	Fixed Rate/Maturity	3.21	10,600,000	28/03/2012	28/03/2030	18 years
PWLB	Fixed Rate/Maturity	3.26	11,000,000	28/03/2012	28/03/2031	19 years
PWLB	Fixed Rate/Maturity	3.30	16,000,000	28/03/2012	28/03/2032	20 years
PWLB	Fixed Rate/Maturity	3.34	17,500,000	28/03/2012	28/03/2033	21 years
PWLB	Fixed Rate/Maturity	3.37	17,600,000	28/03/2012	28/03/2034	22 years
PWLB	Fixed Rate/Maturity	3.40	17,300,000	28/03/2012	28/03/2035	23 years
PWLB	Fixed Rate/Maturity	3.42	15,300,000	28/03/2012	28/03/2036	24 years
PWLB	Fixed Rate/Maturity	3.44	21,000,000	28/03/2012	28/03/2037	25 years
PWLB	Fixed Rate/Maturity	3.46	18,200,000	28/03/2012	28/03/2038	26 years
PWLB	Fixed Rate/Maturity	3.47	19,611,000	28/03/2012	28/03/2039	27 years
PWLB	Fixed Rate/Maturity	3.48	4,000,000	28/03/2012	28/03/2040	28 years
			194,911,000			

Prudential Borrowing

<u>Lender</u>	<u>Type</u>	<u>Rate %</u>	<u>Amount £'s</u>	<u>From</u>	<u>To</u>	<u>Life of Loan</u>
PWLB	Fixed Rate/EIP	2.37	394,737	19/08/2013	19/02/2022	9 1/2 years
PWLB	Fixed Rate	2.29	1,755,950	19/03/2018	19/03/2028	10 years
			2,150,687			

Total Borrowing

218,834,687

**Specified and Non-specified Investment Criteria
(including Treasury Limits and Procedures)**

Table 1

Specified Investments are sterling denominated with maturities up to maximum of one year and must meet the following minimum high credit quality criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Overnight Deposit	Fitch: Short Term F1 and Long Term A and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different OR Part-nationalised or Nationalised UK banking institutions (subject to regular reviews of government share percentage).	Maximum duration as per Treasury Advisor's (Capita's) colour coded Credit List, and less than one year
	Notice Account		
	Short Term Deposit		
Debt Management Office or UK Local Authority	Any deposit	No limit.	
Money Market Funds	Instant Access or with Notice	AAA rated	Instant Access or notice period up to one year

Table 2

Non-Specified Investment are sterling denominated with a maturity longer than one year but no longer than five years, and must meet the following criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Any deposits with maturity up to a maximum of five years	Fitch: Short Term F1+ and Long Term AA- and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different	Maximum duration suggested by Treasury Advisor's (Capita's) colour coded Credit List, and not in excess of five years
Debt Management Office or UK Local Authority		No Limit.	

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Table 3 **Treasury Limits**

Investment Instrument	Cash balances less than £30Million	Cash balances higher than £30Million
	Limits	Limits
Variable Rate Investments (Excluding Enhanced Cash Funds)	Maximum holding £30M	Maximum holding 100%
Counterparty limits (to encompass all forms of investment)	Maximum £5M	Maximum £10M
Instant Access Or Overnight Deposit	Maximum holding 100%	
Fixed Rate less than 12 month maturity	Maximum holding 100%	
Fixed Rate more than 12 months to maturity (includes all types of Fixed Rate Investments i.e. Certificates of Deposits)	Maximum £5M	Maximum £10M
Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund)	Maximum £5M per MMF	Maximum £10M per MMF
	No limit on total cash held	
Enhanced Cash Funds	Maximum £3M	
Certificates of Deposits	Maximum £5M	
Property Funds	Maximum of £3M - No durational limit. Use would be subject to consultation and approval	

Procedures of Applying the Criteria and Limits	
	Before the Treasury Team makes an investment, the Team will follow the follow procedure to ensure full compliance with the Specified and Non-Specified Criteria and Treasury Limits:
1	Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link Asset Services (LAS), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them.
2	If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by LAS in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override).
3	Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits.

APPENDIX D: Approved Countries (with Approved counterparties) for Investments (September 2021)

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Canada
- Finland

AA

- United Arab Emirates
- France

AA-

- Belgium
- Qatar

The UK is exempt from the sovereign rating criteria as recommended by Link Asset Services

The above list includes the possible countries the Council may invest with. Not all of these countries are used or will be used in treasury management investments

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Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2021/22

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it is necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision, including in 2021/22 for the unfunded element of 2011/12 to 2014/15 expenditure. The **preferred method for existing underlying borrowing is Option 3 (Asset Life Method)** whereby the MRP will be spread over the useful life of the asset. Useful life is dependent on the type of asset and was reviewed in 2019/20. Following that review asset lives now ranges from 7 years (ICT equipment) to 50 years (Investment properties, regeneration sites and car parks for example).

In applying the new asset lives historic MRP had been overpaid and in accordance with MHCLG MRP Guidance can be reclaimed in future years. The council has a policy to ring fence costs and income associated with regeneration assets and as such has shown these MRP changes separately, see table below. The overpayment of £1,057,660.39 results in no MRP needing to be charged to the accounts for the regeneration assets until 2025/26, when a partial charge will be required, utilising the remainder of the overpayment balance.

voluntary MRP made		Use of overpayment	
	Regeneration		Regeneration
2012/13	£46,929.65	2020/21	£193,703.12
2013/14	£140,788.95	2021/22	£193,703.12
2014/15	£163,165.30	2022/23	£193,703.12
2015/16	£141,355.30	2023/24	£193,703.12
2016/17	£141,355.30	2024/25	£193,703.12
2017/18	£141,355.30	2026/26	£89,144.79
2018/19	£141,355.30		
2019/20	£141,355.30		
cumulative total	£1,057,660.39	cumulative total	£1,057,660.39

The Council approved a **Property Investment** Strategy – an investment of £15Million in property funded from prudential borrowing. As having Investments for Yield in the capital strategy are no longer permitted, only the MRP payable of £35,119 per year on the investment made of £1,755,950 which will be payable. This was calculated under **Option 3 (Asset Life Method) and the annuity method**, which links the MRP to the flow of benefits from the properties.

The forecast annual MRP for 2021/22 is £388,957 based on the capital expenditure in the draft 2020/21 Financial Accounts, with the lower figure of £195,254 needing to be charged to the 2021/22 Financial Accounts taking into account the overpayment on the regeneration assets. The forecast annual MRP for 2022/23 is £408,312 with £214,609 to be charged to the 2022/23 Financial Accounts.

Finance lease payments due as part of the Queensway regeneration project are also applied as MRP, funded from the payments received in the year, as will any MRP due on borrowing taken in relation to the Housing Wholly Owned Company.

Additional Information

1. What is a Minimum Revenue Provision (MRP)?

The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

The four recommended options are thus:

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity).

This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

This is not applicable to the Council as it is for existing non supported debt

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.

No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

equal instalment method – equal annual instalments,

annuity method – annual payments gradually increase during the life of the asset.

This is the preferred method as it allows costs to be spread equally over the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

This method is not favoured by the Council as if the asset is subject to a downturn in value, then that amount would have to be written off in that year, in addition to the annual charge

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). The CLG document remains as

guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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