



Haverling

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Thursday 22 July 2021	Council Chamber, Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Upminster &
Cranham
Residents' Group
(1)**

**North Haverling
Residents Group ((1**

Viddy Persaud (Vice-
Chair)
Roger Ramsey
Judith Holt

Gerry O'Sullivan

Gillian Ford

Martin Goode
(Chairman)

**For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

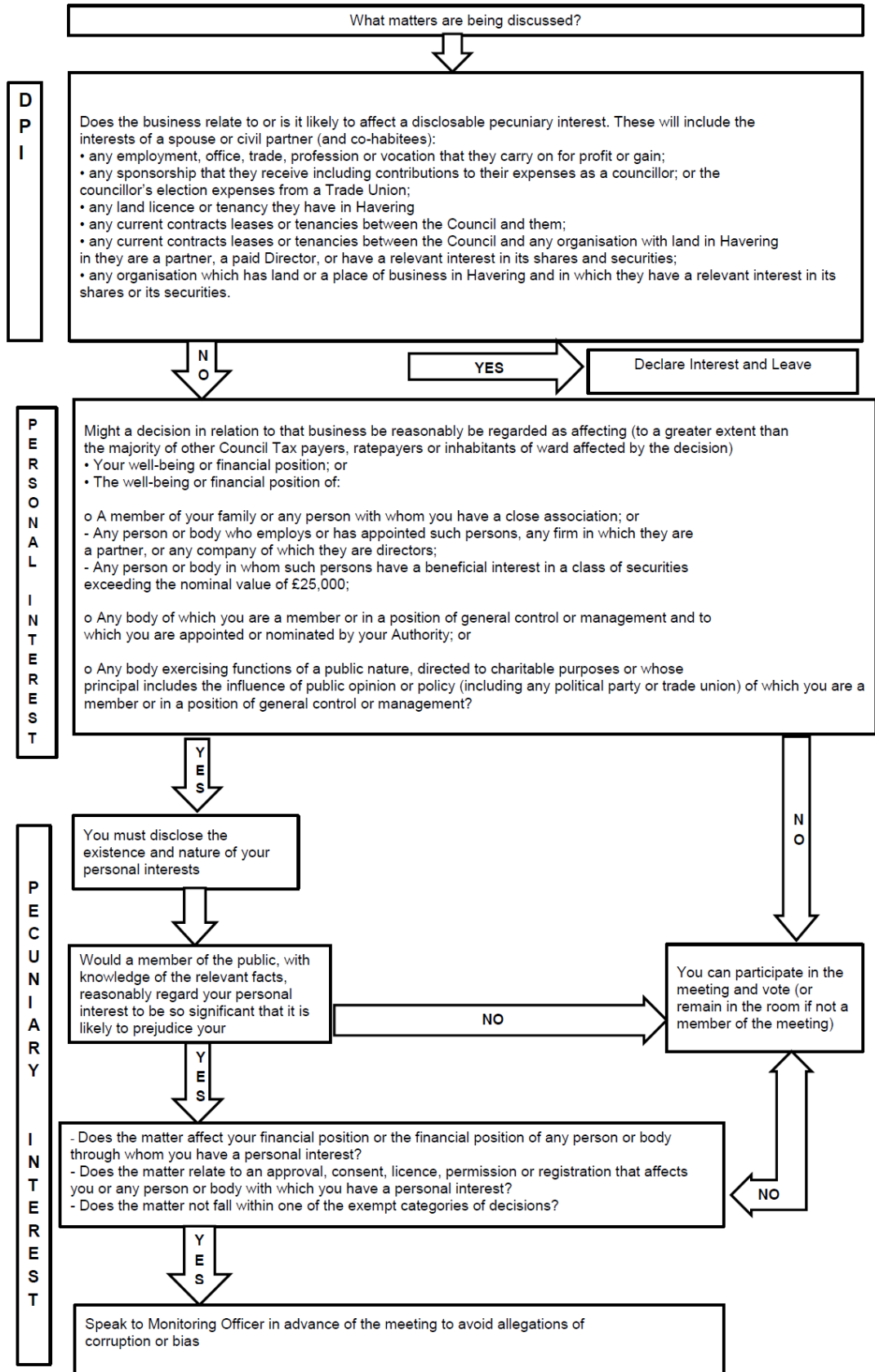
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 2)

To approve as correct the minutes of the meeting held on 28 April 2021 and authorise the Chairman to sign them.

5 ASSURANCE PROGRESS REPORT (Pages 3 - 14)

Report and appendices attached

6 PROCUREMENT UPDATE (Pages 15 - 28)

Report attached

7 TREASURY MANAGEMENT ANNUAL REPORT 2020/21 (Pages 29 - 44)

Report and appendices attached

8 AUDIT COMMITTEE ANNUAL REPORT (Pages 45 - 48)

Report attached

Andrew Beesley
Committee Administration
Manager

Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
28 April 2021 (7.00 - 8.00 pm)**

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (Vice-Chair), Roger Ramsey and Judith Holt
Residents' Group	Gerry O'Sullivan
Upminster & Cranham Residents' Group	Gillian Ford
North Havering Residents Group	Martin Goode (in the Chair)

There were no apologies for absence.

70 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 24th February 2021 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

71 HEAD OF ASSURANCE REPORT

The Committee were presented with the Head of Assurance Annual report for 2020-2021.

Members noted that reasonable assurance had been provided for the Council's internal control system. Members also noted that the timescale for the Procurement service review could not be given to the Committee but a report would be presented at a future meeting detailing the work done. It was noted that there were 57 open investigations into Housing fraud and 14 cases of corporate fraud had been investigated.

The Committee **noted** the report.

72 EXTERNAL AUDIT PLAN 2020-21

The Committee received the 2020-2021 External Audit Plan produced by Ernst and Young.

The Committee noted that the plan was indicative and there had been little change in the risk or focus from the 2019-2020 plan. Members considered the Audit Strategy and noted that the Valuation of investment property had been identified as a significant risk, however, the other risk areas were inherent. Members were

pleased to hear that the audit of the 2019-2020 accounts was close to completion with the audit of the 2020-2021 accounts were due to start in September 2021.

The Committee **noted** the report.

Chairman



AUDIT COMMITTEE 22 07 2021

Subject Heading:	Assurance Progress Report
SLT Lead:	Jane West Chief Operating Officer
Report Author and contact details:	Jeremy Welburn Head of Assurance Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work during quarter one of 2021/22.
Financial summary:	There are no financial implications arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report advises the Committee on the work undertaken by the Assurance Service (internal audit and counter fraud) during the period from 1st April to 30th June 2021. This report is presented in three sections:

Section 1: Introduction, Issues and Assurance opinion

Section 2: Executive Summary – A summary of the key messages

Section 3: Appendices: Provide supporting detail for Member's information

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner/sponsor
- Third line – independent assurance.

The Council's third line of defence includes internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

1.1.3 An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

- 1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.
- 1.1.5 This report brings together all aspects of internal audit and counter fraud work undertaken during the period from 1st April to 30th June 2021, in support of the Audit Committee's role.
- 1.1.7 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide specific detail of outputs for the Committee's information.

Section 2. Executive Summary of work undertaken during quarter one of 2021/22

2.1 Internal Audit

- 2.1.1 There have been six audits completed during this period, four of which were schools; all given a reasonable assurance. Of the two systems reviews completed; one was the phase one review of Supporting Families where an assurance opinion is not usually provided and the remaining audit was given a reasonable assurance opinion. Appendix D shows the current position of the 2020/21 audit plan.
- 2.1.2 There were no high risk recommendations raised in these reports.

2.2 Pro-Active and Counter Fraud

- 2.2.1 During the 1st April to 30th June 2021 the Counter Fraud Service undertook a recruitment drive and now have three permanent positions filled; previously there were two posts covered by agency members of staff.
- 2.2.2 The structure for the Counter Fraud Service is now:
- 1 x Audit Partner (Pro-Active Audit & Counter Fraud)
 - 2 x Fraud Investigators (1 permanent & 1 one year fixed term contract)
 - 1 x Data Analyst / Intelligence Officer
- 2.2.3 Due to lockdown the service was limited to desk based intelligence checks and investigations. Post-lockdown the counter fraud service will be focussing on following up these desk based intelligence checks and investigations with door visits (following all Covid-19 social distancing measures).

2.2.4 Of the three referrals brought forward from the previous report, two referrals have been referred to the Service Directors and one to the Chief Executive.

2.2.5 During the 1st April to 30th June 2021 seven referrals were received; all seven were Whistleblowing referrals. One case has been investigated by the service and concerns addressed and one case has been investigated and findings / recommendations issued to the Service Director to address. Five referrals are currently being investigated.

Section 3. Appendices: Provide supporting detail for Member's information

Appendix A: Detail of Internal Audit work to date

Appendix B: Status of High Risk Recommendations

Appendix C: Detail of Counter Fraud work

Appendix D: Current status of 2021/22 audit plan

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate internal audit service, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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Appendix A – Progress Report - Internal Audit Work

1. Audit Progress

1.1 The Annual Audit Plan was presented to the Audit Committee in February 2021. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2021/22, with time allocated under each theme to carry out risk identification and process mapping, where required. Members are reminded that the 2021/22 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan are made to allow for changes in the risk and operational environment in which the Council operates. Where changes are made they are outlined in Appendix D.

1.2 Current, cumulative progress toward delivery of the 2021/22 audit plan, as at the end of June 2021, is summarised in the table below, with further detail provided in Appendix D. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Plan Status	Number of Audits / Tasks
Final reports issued / Reviews Completed	6
Draft reports issued	3
Underway	6

2. Risk Based Systems and School Audits

2.1 The table below details the results of the work undertaken during quarter one.

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
HMO Enforcement	Reasonable	0	0	0	0
Supporting Families – Phase one	N/A	N/A	N/A	N/A	N/A
School Audits					
Rainham Village Primary FINAL	Reasonable	0	7	4	11
The Towers Federation DRAFT	Reasonable	0	4	4	8
Harold Wood Primary DRAFT	Reasonable	0	3	8	11
Crownfield Juniors	Reasonable	0	6	5	11
Total		0	20	21	41

Key to Assurance Levels	
Reasonable Assurance	The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

3. Audit Recommendations Update and status of High Risk Recommendations

- 4.1 Internal Audit follows up all high and medium risk audit recommendations with relevant service management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review.
- 4.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. Part of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.
- 4.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

High	Fundamental control requirement needing implementation as soon as possible.
Medium	Important control that should be implemented.
Advisories	Pertaining to best practice.

- 4.4 All high risk recommendations due as at the end of June 2021 have been confirmed as implemented. One recommendation has been given an extended deadline for completion due to the need for reports and exception reports under development within the new Fusion financial system. Appendix B provides details of the open high risk recommendations that were due to be implemented by the end of June 2021, along with a status update. There were no high risk recommendations raised during quarter one of 2021/22.
- 4.5 All medium risk recommendations that became due before the end of June 2021 have been confirmed as implemented.

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Appendix B: Status of High Risk Recommendations

There is one high risk recommendation that remains outstanding – this is being addressed through the payroll audit that is currently underway.

High Risk Recommendations	Status
Payroll	
Exception reports highlighting information that might indicate unusual activity (e.g. high overtime earners / additional payments) should be produced and distributed to support and enable managers to undertaken their duties.	Revised implementation date of July 2021 due to the ongoing development of reports and exception reports in Fusion. (original date September 2020)

Appendix C

1. Counter Fraud Work – 01/04/2021 to 30/06/21

1.1.1 The Counter Fraud Service recently undertook a recruitment drive and now have three permanent positions filled; previously there were two posts covered by agency members of staff.

1.1.2 The structure for the Counter Fraud Service is now:

- One Counter Fraud Manager
- Two Fraud Investigators (one permanent and one year fixed term contract)
- One Data Analyst / Intelligence Officer

1.2 Reactive Investigation Cases

1.2.1 Three referrals were brought forward from the previous period:

- For two referrals briefing notes with recommendations issued to Service Director to address; and
- For one referral a briefing note was issued to the Chief Executive.

1.2.2 During the period 1st April to 30th June 2021 seven whistleblowing referrals were received. One case has been investigated by the Service and concerns addressed and one case has been investigated and findings / recommendations issued to the Service Director to address. Five referrals are currently being investigated.

1.3 Housing Cases

1.3.1 Due to lockdown restrictions, Housing Tenancy related counted fraud work has been limited to desk based intelligence checks and investigations. As restrictions have eased, visits to Council properties that have been identified as higher risk of fraud have recommenced (following all Covid-19 social distancing measures).

1.3.2 The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications to date:

Description	2020/21	2021/22 (to date)
Number of referrals	57	9
Properties recovered	2	1
Notional Saving	£36,000	£18,000
RTB checked	178	43
RTB stopped	4	2
Notional Saving	£449,200	£224,600
Total Notional Saving	£485,200	£242,600

Audit Committee, 22 July 2021

Appendix D: Current status of 2021/22 Audit Plan

Audit Title	Status as at end Q1	Opinion	Reason for delay (where applicable)
LBH Systems Audits			
HMO Enforcement	Completed	Reasonable	
Supporting Families – Phase one	Completed	N/A	
Housing Voids	Draft Report		Management responses to draft report at project board.
Reablement	Draft Report		Further input sought from legal and procurement.
Project Management	Draft Report		
Social Care Transitions	Underway		Moved due to demands on resources.
Business Continuity & Emergency Planning	Underway		Continuing CV19 response.
Payroll (compliance work)	Underway		
Public Protection – Risk Mapping	Underway		
Post Implementation Review of Liquid Logic	Q2		
Youth Justice Service	Q2		
Housing - Property buy-back	Q2		
Housing - Service Charges	Q2		
Safeguarding Adults	Q2 (TBC)		
Parking	Q2/3		
Procurement	Q3		
Contract Management	Q3		
Direct Payments	Q3		
Continuing Healthcare	Q3		
SEND	Q3/4		
Highways Services	Q4		
Planning	Q4		
Housing – Compliance work	Q4		
Compliance – Key Financial Audits	Rolling programme of work throughout 2021/22		
ICT	TBC		
Joint Counter-Fraud work	Ongoing as demand arises		

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LBH Schools			
Rainham Village Primary	Completed	Moderate	
The Towers Federation	Completed	Moderate	
Harold Wood Primary	Completed	Moderate	
Crownfield Juniors	Completed	Moderate	
Squirrels Heath Infants	Underway		
St Edwards CofE Primary	Underway		
Ardleigh Green Federation	To be scheduled in for Q3 and Q4.		
Brady Primary			
Branfil Primary			
Crowlands Primary			
Crownfield Infants			
Engayne Primary			
Gidea Park Primary			
Hylands Primary			
Nelmes Primary			
Parsonage Farm Primary			
Scotts Primary			
St Alban's Catholic Primary			
St Patrick's Catholic Primary			
St Ursula's Catholic Primary			
The James Oglethorpe Primary			
The RJ Mitchell Primary			
Health Checks (9)	1 completed	5 underway	



AUDIT COMMITTEE 22 July 2021

Subject Heading:	Procurement Update
SLT Lead:	Jane West, Chief Operating Officer
Report Author and contact details:	Rose Younger, Director of Procurement Tel: 02033730590 Email: rose.younger@onesource.co.uk
Policy context:	To inform the Committee of recent changes in the procurement service and progress on the audit recommendations.
Financial summary:	There are no financial implications arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

This report advises Members of the Audit Committee with an update of the most recent changes made to procurement with a view to improving management and governance of procurement activity within the Council.

RECOMMENDATIONS

Members are asked to note the content of this report and to ask specific questions of officers where required.

REPORT DETAIL

Update to the Audit Committee – July 2021

1 Introduction and Background

The February 2020 audit of Procurement highlighted concerns in four areas. Updates to those issues are provided below:

1.1 Value for money

A new Gateway Review Group (GRG) has been initiated to ensure proper oversight of all in scope procurement activity. This group includes the deputy S151 and legal officers. This group will aim to ensure greater value for money arrangements on Council procurements.

1.2 Compliance with Regulations and Council's Contract Procedure Rules and dealing with off contract spend and/or missing contracts

GRG will monitor each stage of a procurement to ensure compliance. The use of the Fusion system automatically creates a contract record. Incoming Procurement Initiation Forms are reviewed and the work allocated to appropriate resources. The new procurement intranet will make compliance easier, and includes new processes and guidance

1.3 Authorisation for expenditure;

The new procurement intranet pages will give clear guidance to officers along with clarity on authorisation required within the corporate governance framework.

1.4 Monitoring of expenditure/ delivery of service

GRG will oversee contract expenditure by reviewing the outcomes of tenders, analysing the contract register and spend and will report to the S151 officer.

2 Background to the updates

2.1 There have been significant changes in staffing in the Strategic Procurement Unit. There was a restructure in February 2020 and a new Director appointed in September 2020. Five interim staff have been replaced with permanent staff to reduce costs and improve service. The team now consists of 24 FTE's only one of which is interim (covering a long term illness). It should be noted that over the last 15 months, many of the team were moved from normal procurement work to support the pandemic response. Whilst the emergency of the pandemic has passed, the team have continued to support with procurements to support testing and more recently vaccinations.

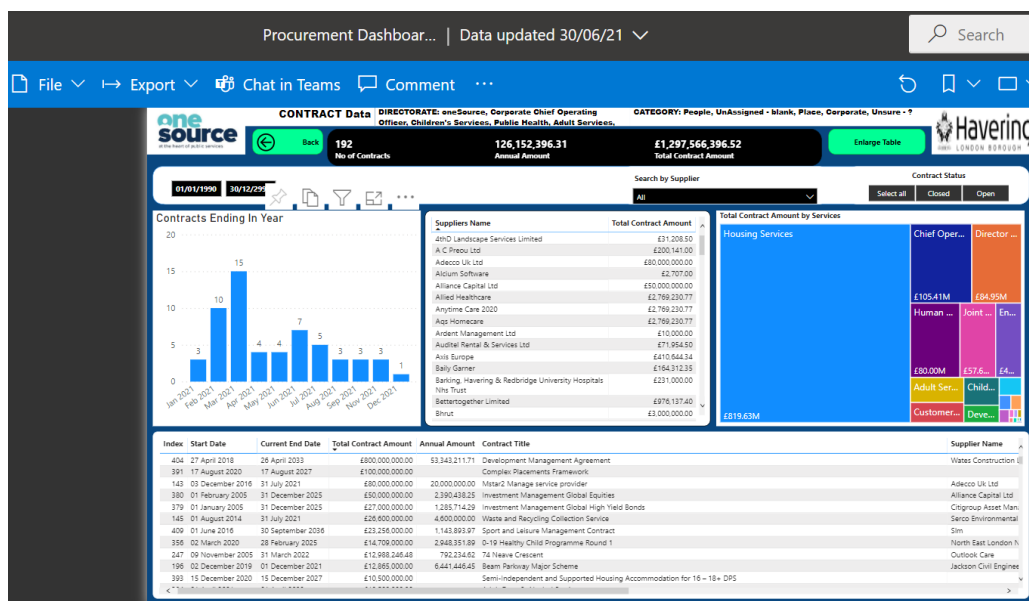
2.2 The Procurement Improvement Project is developing the new procurement intranet site designed to make compliance easier. The site has been well received in LBN. The LBH version is ready to publish in line with the approval of the new Contract Procedure Rules.

- 2.3 We have been working jointly with Accounts Payable running Drop-In sessions to support staff with the new Fusion system. The number of calls and complaints has dropped dramatically as a result of this work.
- 2.4 We are reviewing procurement workflows, systems, resources and governance to ensure that previous procurement failures are not repeated, or at the very least that we have early warning of impending issues such that mitigating action can be taken.
- 2.5 We have been developing a series of measures and internal Performance Indicators to support reporting to the Joint Committee. These are reflected in all staffs objectives and 1-2-1 reviews.
- 2.6 Most high performing procurement teams have a formalised approach to Gateway management. We are now implementing this approach to manage our procurements. This approach supports technical development and learning for staff.

Procurement Improvements since September 2020

3. Contract register

- 3.1 Progress with completion of the contract register has been slow, so a new approach is being readied for roll out in the next two weeks. This will give contract managers secure access into the register such that they become responsible for accuracy and completion. The Annual Procurement Plan relies on the Contract register, and work is continuing to get this completed for submission to SLT and Cabinet.
- 3.2 A Contract Register Dashboard has been developed to make contract data more accessible to managers. The dashboard currently represents £126M of annual spend. This represents a £10M increase since May (see appendix 2)



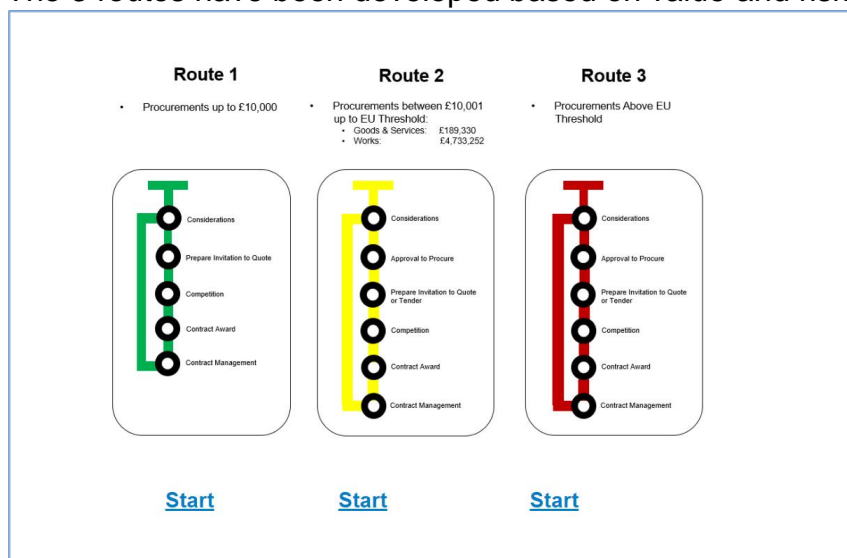
4 New Contract Procedure Rules

4.1 The governance process for the new Contract Procedure Rules (CPR's) commenced in 2020 and should be completed in Summer/Autumn 2021 once recommended by Cabinet and then approved at Full Council.

4.2 The Procurement Improvement Project was implemented to improve procurement operations, governance and improve confidence in the service. There has been significant progress:

The new procurement intranet site is under development to be launched as soon as the CPRs are nearing the end of the governance process. The site includes new features designed to make compliance easier.

- a. The new intranet guidance includes regular reminders of the Councils **“no PO, no Pay”** policy. We are seeing evidence that the Fusion controls that support the “no PO, no Pay” policy are working. The retrospective Purchase Order report will form part of a monthly exceptions report to the S151 officer.
- b. The new site includes a link to available training e.g. the fundamentals of procurement which will be available to officers across the Council. And we are developing new bookable CPR courses which will be available once CPR approval date is known.
- c. The procurement front page walks officers through a compliant process. The 3 routes have been developed based on value and risk.



- d. A new Procurement Initiation Form (PiF) has been developed but has yet to be implemented at LBH this will be launched along with the new CPR's. The PiF includes an evaluation of value and procurement risk to ensure that lower value but higher complexity procurements receive an appropriate level of oversight. The new weekly review of all incoming PiF's allocates projects to an appropriately skilled officer to manage or oversee.
- e. All procurement projects are added to the iProcure system to ensure visibility and management of the procurement progress. The iProcure system facilitates reporting of all procurement projects. (see appendix 1).

5 Oracle Fusion

- 5.1 Oracle Fusion went live in September 2020. The system contains two tools to manage spend against contracts:
- 1) The Blanket Purchase Agreement (BPA) – sets the spend limit according to the contract value, and alerts the contract owner when spend reaches 80%. The system blocks spend above 100%.
 - 2) The Content Zone authorises who can place orders against each contract.

6 Strategic Procurement Unit (SPU) Structure

The Strategic Procurement Unit was restructured in February 2020. It is becoming clear that the current structure is not as efficient as it should be. Workflows are fractured and this makes for confusion and a lack of oversight. As we strive for continuous improvement, the structure is being reviewed. The objective is to ensure that we have the right people doing the right things so that the department is as efficient as possible and delivers maximum benefit for the Council

7 Performance Indicators

- 7.1 Prior to 21/22 there were no KPI's in place for procurement. The team have contributed to a set of performance indicators. These are being incorporated into personal targets and goals for every member of the team.
- 7.2 The following are the indicators and the management information agreed by the oneSource Joint Committee.

Procurement KPI's
Number of Contracts awarded on time
Number of Procurement projects completed
Number of Procurement projects in progress
Percentage of Procurement projects on track - % of total in-progress
Procurement Strategy Approved
Savings % against Procurement value
Number of Contracts awarded on time
User satisfaction

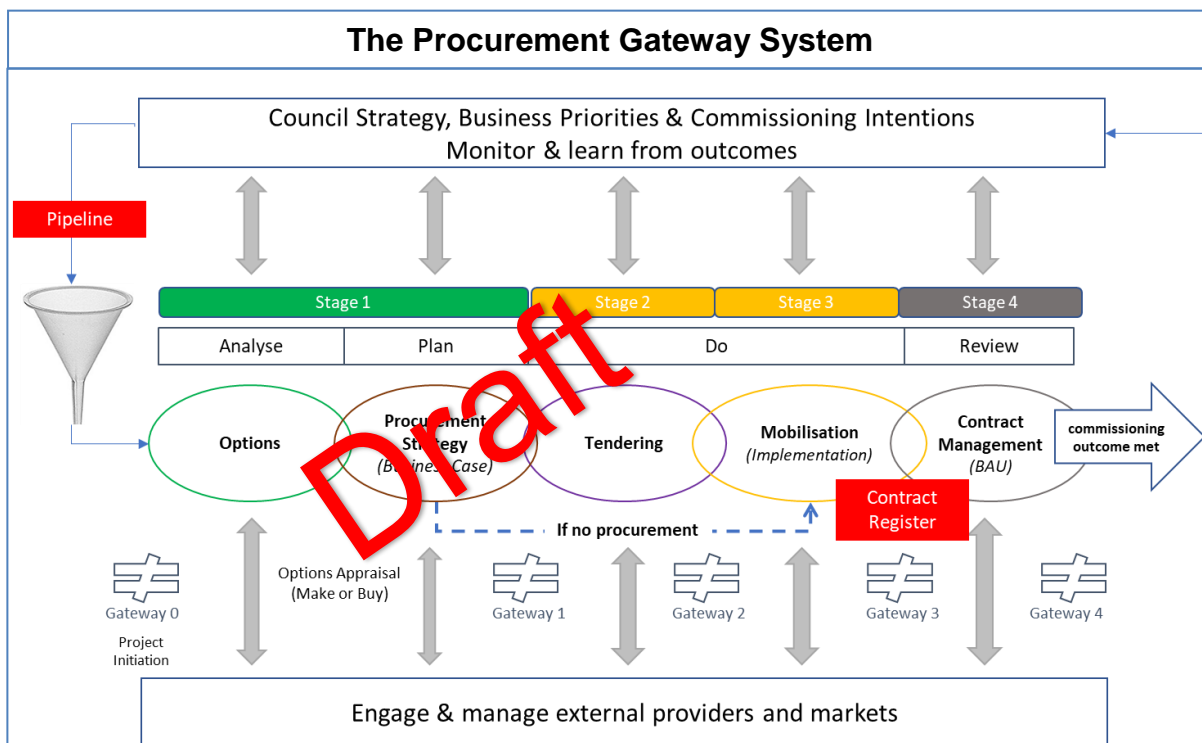
- 7.3 The procurement indicators have been aligned to the oneSource indicators which are themed:



8 Procurement Governance

- 8.1 The Checkpoint system has been reviewed and no longer reflects best practice procurement. We are implementing a new gateway based governance system using the following decision gates:
- Gateway 0 - Initiation - Pipeline
- Gateway 1 - Procurement Strategy – pre-procurement

- Gateway 2 - Tendering / Competitive Stage
- Gateway 3 - Contract Award, mobilisation, handover to BAU (record savings and Social Value) ****New****
- Gateway 4 - Contract Management, benefits realisations ****New****



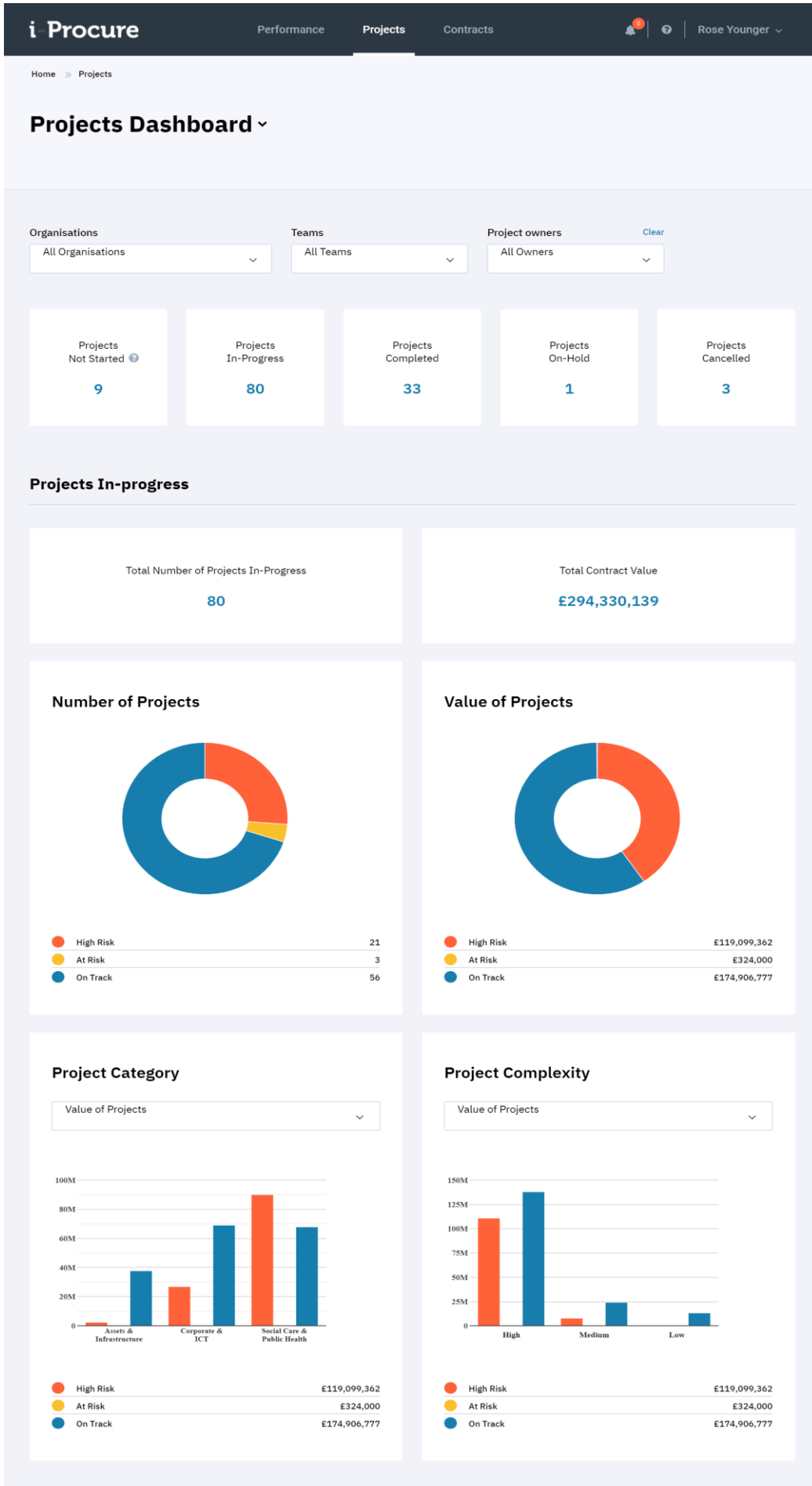
July 2021 Update on outstanding Audit Findings

Rec No	Rec	Priority	Res Officer	Mngt Response	Original Imp Date	Rec Status	Revised Imp Date	Previous Comments	Update July 2021
1	Given the limited assurance that purchases are compliant with legislative and local policies, and the lack of evidence to support that spend is approved and achieving value for money for the Council, the Procurement function should identify how they will address all levels of non-contracted spend to ensure compliance.	H	Rose Younger Director of Procurement	We have already recognised the relatively low proportion of supplier spend that is captured by contracts on the central register. The steps listed in the bullet points above are already being put into place to address this. In addition, with the implementation of Fusion we will be able to track the actual spend versus contract value to identify and address issues where these vary, such as the one listed in the report.	Key timescales relate to measuring progress against the measures we have already put in place as follows: <ul style="list-style-type: none"> • Q1 20/21: 60% contract coverage, including locating & uploading physical contracts onto contract management system • Q2 20/21: 70% contract coverage, including locating & uploading physical contracts onto contract management system • Q3 20/21: 80% contract coverage, including locating & uploading physical contracts onto contract management system <p>We will also be in a position to roll out dashboard to services by April 2020 to give them easy view of contract coverage in their own areas, alongside clear training for them to improve coverage of the lower value contracts.</p>	Implemented	N/A	<p>We continue to work with services to identify contracts to go on the register. The % of our total procurement spend for which we have identified contracts has increased to 58%. This is 2% less than the Q1 20/21 target but anticipate we will meet the 70% Q2 target. Progress in locating physical contracts has been slow with very limited responses to email requests for these over past 3 months - will focus on this over coming weeks.</p> <p>Dashboard identifying contract coverage within each Directorate/Service is ready to roll out</p> <p>A 'Quick Quote' tool is being developed as part of Fusion to ensure that all sub-OJEU procurements undertake a competitive process. This will go live in October.</p>	<p>The Power BI dashboard has been shared with officers and Directors to support the work to capture and complete contract details.</p> <p>Quick Quotes has been launched along with guidance and support to facilitate self-service.</p> <p>CPR training is being developed to support officers.</p> <p>An Annual Procurement plan is being developed which will further support compliance.</p> <p>A new approach to evaluation and social value is being developed to further improve VFM</p> <p>The initial analysis of on/off contract spend for LBH is underway –will report to the next audit committee</p>

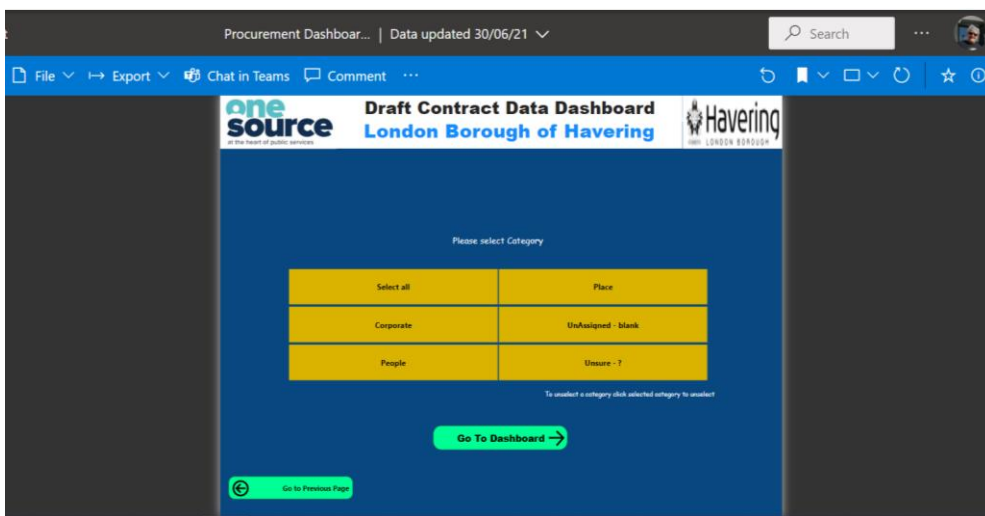
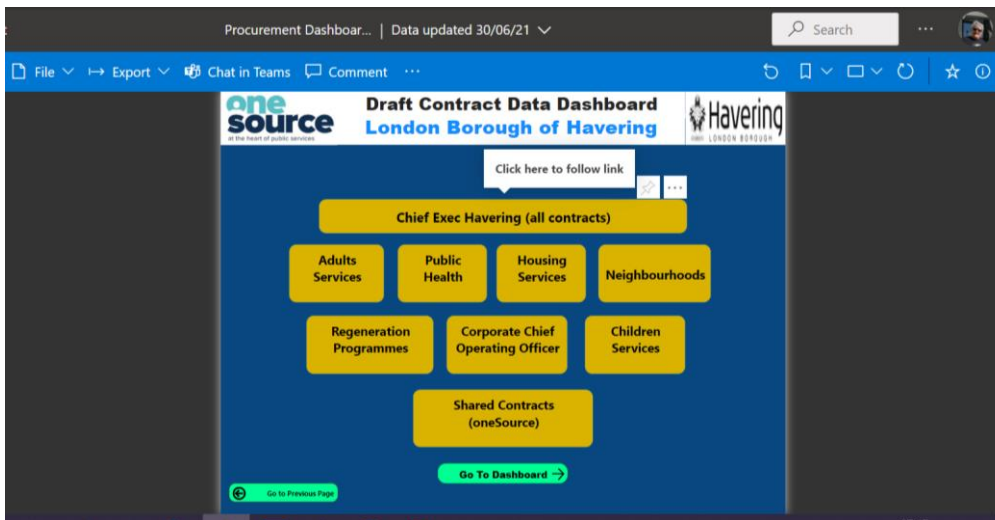
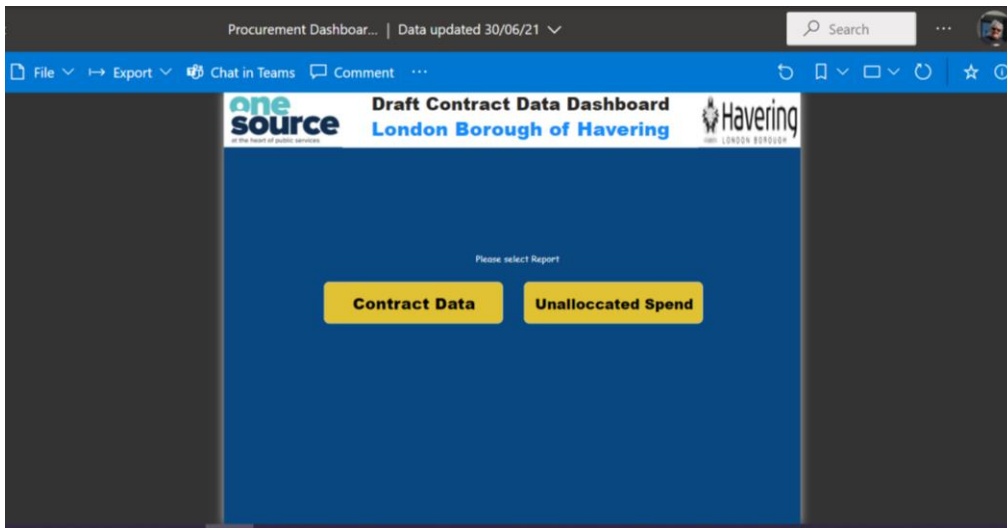
2	<p>The scope of the Council's No Purchase Order No Pay position should be outlined in a policy document that clearly identifies:</p> <ul style="list-style-type: none"> • The objective of No Purchase Order No Pay; • Roles and responsibilities; • Permitted exemptions from this rule including exemption criteria and who can authorise exemptions; and • Responsibility for compliance measures and oversight. <p>This policy should be clearly communicated to all officers across the Organisation prior to the introduction of Fusion, made available on the intranet and supported by the provision of training where necessary.</p>	M	Rose Younger Director of Procurement	<p>The revised policy will be incorporated within the amended Contract Procedure Rules which are already under review. A new set of CPRs are targeted to go live in May 2020 and there will be associated training in these.</p>	May-20	Open	Oct-21	<p>The new Contract Procedure rules have not yet received final approval. The Procurement service is developing new systems, processes, guidance and training to ensure ease of compliance with the new CPRs. It is important these 2 elements of work go-live at the same time. In the meantime the levels of controls against no po no pay have increased following the introduction of the Fusion system.</p>	<p>The revised procurement standing orders have been drafted to include the relevant No purchase no pay policy. The final draft is in the process of being reviewed and is provisionally planned to go to Governance Committee in August and full Council in September</p>
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3	Given the Council operates a self-service model placing responsibility on managers to ensure compliance with Council policies and procedures, the Procurement Team should introduce exception reporting post the introduction of Fusion, to identify cases of non-compliance for escalation to Heads of Service / Directors.	M	Rose Younger Director of Procurement	We have agreed that the AP team will manage enforcement of the policy on a transaction by transaction basis in the future. This will require development of standard letters etc. (e.g. when returning invoices to providers). The Procurement Department will take responsibility for enforcement at a managerial level. This will be done as part of conversations that the team should be having routinely with Heads of Services & Directors around procurement activity. It will be informed by the development of management reporting that will identify Directorate/Service/budget holder hotspots and trends around non-compliance.	Jun-20	Open	Sep-21	The development of this report is now in final testing - work to share with CLT and Services commence in January 2021	We have been running drop in sessions to explain Fusion to staff. We will be running training to support the launch of the new CPR's and the new intranet pages support easy compliance. On/off contract spend is currently being analysed- this report will go to Directors and S151 to support corrective action.
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APPENDIX 1 - Iprocure Dashboard



APPENDIX 2 - HAVERING CONTRACT REGISTER DASHBOARD – JUNE 2021- Screen Shots





CONTRACT Data

DIRECTORATE: oneSource, Corporate Chief Operating Officer, Children's Services, Public Health, Adult Services.

CATEGORY: People, UnAssigned - blank, Place, Corporate, Unsure - ?



Back

192 No of Contracts

126,152,396.31 Annual Amount

£1,297,566,396.52 Total Contract Amount

Enlarge Table

01/01/1990 30/12/299

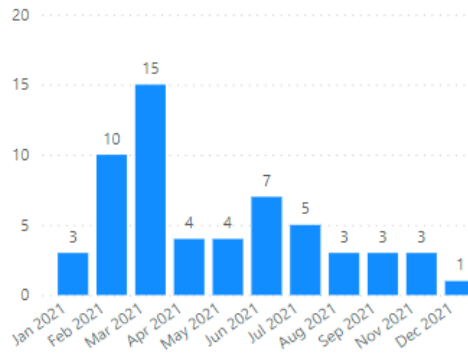
Search by Supplier

All

Contract Status

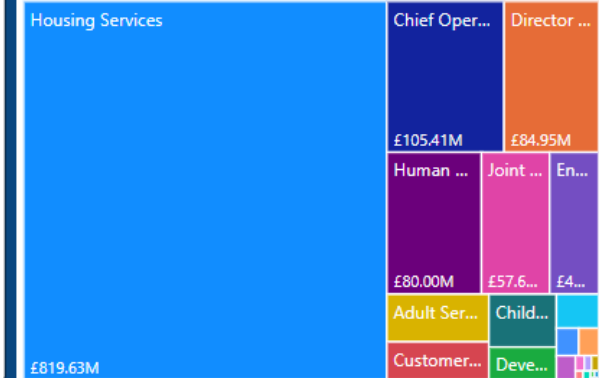
Select all Closed Open

Contracts Ending In Year



Suppliers Name	Total Contract Amount
4thD Landscape Services Limited	£31,208.50
A C Preou Ltd	£200,141.00
Adecco Uk Ltd	£80,000,000.00
Alcium Software	£2,707.00
Alliance Capital Ltd	£50,000,000.00
Allied Healthcare	£2,769,230.77
Anytime Care 2020	£2,769,230.77
Aqs Homecare	£2,769,230.77
Ardent Management Ltd	£10,000.00
Auditel Rental & Services Ltd	£71,954.50
Axis Europe	£410,644.34
Baily Garner	£164,312.35
Barking, Havering & Redbridge University Hospitals Nhs Trust	£231,000.00
Bettertogether Limited	£976,137.40
Bhrut	£3,000,000.00

Total Contract Amount by Services



Index	Start Date	Current End Date	Total Contract Amount	Annual Amount	Contract Title	Supplier Name
404	27 April 2018	26 April 2033	£800,000,000.00	53,343,211.71	Development Management Agreement	Wates Construction U
391	17 August 2020	17 August 2027	£100,000,000.00		Complex Placements Framework	
143	03 December 2016	31 July 2021	£80,000,000.00	20,000,000.00	Mstar2 Manage service provider	Adecco Uk Ltd
380	01 February 2005	31 December 2025	£50,000,000.00	2,390,438.25	Investment Management Global Equities	Alliance Capital Ltd
379	01 January 2005	31 December 2025	£27,000,000.00	1,285,714.29	Investment Management Global High Yield Bonds	Citigroup Asset Man
145	01 August 2014	31 July 2021	£26,600,000.00	4,600,000.00	Waste and Recycling Collection Service	Serco Environmental
409	01 June 2016	30 September 2036	£23,256,000.00	1,143,893.97	Sport and Leisure Management Contract	Slm
356	02 March 2020	28 February 2025	£14,709,000.00	2,948,351.89	0-19 Healthy Child Programme Round 1	North East London N
247	09 November 2005	31 March 2022	£12,988,246.48	792,234.62	74 Neave Crescent	Outlook Care
196	02 December 2019	01 December 2021	£12,865,000.00	6,441,446.45	Beam Parkway Major Scheme	Jackson Civil Enginee
393	15 December 2020	15 December 2027	£10,500,000.00		Semi-independent and Supported Housing Accommodation for 16 - 18+ DPS	

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

Legal implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

Human Resources implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

Equalities implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

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AUDIT COMMITTEE 22 JULY 2020

Subject Heading:

**Annual Treasury Management Report
2020/21**

SLT Lead:

**Jane West
Chief Operating (Section 151) Officer**

Report Author and contact details:

**Zainab Roberts/ Stephen Wild
Treasury Manager / Head of Pensions
and Treasury
0203 373 3881
Stephen Wild@oneSource.co.uk**

Policy context:

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2020/21. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, ("the CIPFA TM code") and the CIPFA Prudential Code for Capital Finance in Local Authorities, ("the Prudential Code")

Financial summary:

**The Treasury Strategy supports the
Authority's Budget strategy.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Places making Havering	[x]
Connections making Havering	[x]

SUMMARY

The CIPFA TM Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end).

The Authority's Treasury Management Strategy Statement (TMSS) 2020/21 was approved by Full Council on the 26th February 2020 and revisions to the strategy were approved by Audit Committee in November 2020. This report covers the delivery of the TMSS in 2020/21.

The Authority borrowed and invested substantial sums of money and is potentially exposed to financial risk from loss of invested funds and the revenue impact from changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control.

RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2020-21 as detailed in the report.

KEY HIGHLIGHTS

- Investment income for the year £1.75m slightly exceeded budget £1.7m and the interest payable outturn was £8.304m compared to budget £12.695m – a saving of £4.391m in 2020/21.
- The Authority's weighted average return on its investments outperformed that of the treasury adviser's benchmark London Local Authority Group.
- During 2020/21 this Authority operated within the treasury limits and prudential indicators set out in the TMSS.

REPORT DETAIL

1. Background

1.1. Economic

The Bank of England (BoE) is unlikely to raise interest rates due to higher inflation, as its target overshoot is likely to be temporary.

Our central case and that of the markets is that the Bank of England (BoE) will see through the temporary rise in inflation above its target 2.0% and keep Bank Rate at 0.1% for approximately two years, in order to allow the economy to fully recover. However the risk that BoE are underestimating inflation has increased and this will be watched carefully by officers as this will influence the timing of new long term prudential borrowing.

Yields on longer duration government debt have remained steady with 10-year yields close to 0.8% after a sharp increase in February this year. The increase reflected an anticipation of higher real interest rates and inflation in the future and brought yields back to pre-pandemic levels.

1.2 Credit

As at 31 March 2021, c.68% or £75m of the Authority's treasury investments were held with other Local Authorities which have very high credit quality. However investment with any single authority did not exceed £5m. The Authority uses only the highest quality "AAA" rated low volatility money market funds (MMFs) to manage operational cash flow requirements.

2. Treasury Management Summary

2.1 The treasury management activity in year is shown in table 1 below:

Table 1: Treasury management summary as at 31st March 2021

	01.04.20		31.03.21	31.03.21	31.03.21
	Balance	Movement	Balance	Ave Rate	Interest
	£m	£m	£m	%	£m
LONG-TERM BORROWING					
PWLB	228.234	30.000	258.234	2.97	7.673
LOBO	7.000		7.000	3.61	0.253
Short-term borrowing	38.351	(27.898)	10.453	0.31	0.033
Total borrowing	273.585	2.102	275.687	2.89	7.959
INVESTMENTS					
Long-term investments	13.000	(13.000)	-		
Short-term investments	142.800	(32.800)	110.000	1.39	1.752
Cash and cash equivalents	15.850	(15.850)	-		
Total investments	171.650	(61.650)	110.000	1.39	1.752
Net borrowing	101.935	63.752	165.687	1.50	6.207

3. Borrowing strategy

- 3.1 Table 2 sets out the change in the authority's Capital Financing Requirement (CFR) in 2020/21 – this measures how the authority's underlying borrowing need has changed in year as a result of activity on the authority's approved capital programme and how it has been financed. The authority's capital finance budget includes provision to fund the capital programme's expected borrowing requirement from new long term fixed rate debt.

Table 2: Change in CFR and its financing 2020/21

£m	31/2/20 Act	31/3/21 Act
GF CFR	156	190
HRA CFR	197	212
Total CFR	353	402
Financed by:		
Internal cash	109	137
External Debt:		
HRA	200	230
GF	35	35

- 3.2 The authority agreed a PWLB long-term fixed rate loan at 1.53% for 50 years discounted at the HRA certainty rate to fund the HRA capital programme in year. This was slightly ahead of need at 31/3/21 to help fund the growth in the HRA's underlying borrowing need in 2021/22.
- 3.3 In year, short term interest rates remained much lower than long term rates (cost of carry) by c.1.7% which the outlook over the medium term remained the same. Deferring the draw down of new long term fixed rate debt combined with capital slippage on the capital programme helped deliver £4.391m in

revenue savings (of which £3.03m is General Fund and used to fund pressures elsewhere in the authority's Budget Strategy).

4. Investment strategy

- 4.1 2020/21 was not a good year to be holding cash when short term interest rates were approaching zero (Bank rate is 0.1%) with the added threat from the imposition of negative rates (charges) coupled with CPI inflation currently running at 2.5%. Hence the strong case for running down the authority's cash balances to help fund the capital programme.
- 4.2 Table 2 shows capital borrowing from internal cash resources increased by £28m. Table 1 shows that the authority's cash resources contracted by £63.7m: £27.9m was repayment of a temporary loan drawn down in the previous year, internal borrowing for capital purposes £28m, and the balance £7.8m was attributed to operational fluctuations in net revenue spend.
- 4.3 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve an optimal yield commensurate with these priorities. . Officers kept treasury investments in short-term instruments in 2020/21 so they could be used to fund the capital programme but the aim is to keep a liquidity buffer of between £30m-£50m in the event of any future credit crisis. Most of the authority's treasury investments were invested with other local authorities reflecting their high credit quality characteristics.

Table 3: Treasury investment activity 2020/21

Investments	Balance at 31/03/20	Movement	Balance at 31/03/21	Interest Rate as at 31.03.21
	£m	£m	£m	%
Bank & Building Society (fixed unsecured)	37.800	(22.800)	15.000	0.11
Bank & Building Society (Call & Notice Accounts)	15.000	5.000	20.000	0.40
Local Authorities	100.000	(25.000)	75.000	0.54
Money Market Funds	15.850	(15.850)	-	
Corporate Bonds and Loans	3.000	(3.000)	-	

Total investments	171.650	(61.650)	110.000	
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4.4 The authority is a member of the treasury adviser’s benchmarking club which reports each quarter on its treasury investment performance in comparison with member authorities. The authority’s risk adjusted return of 0.46% was higher than the average for 21 London Boroughs at 0.31% as at 31.03.21.

4.5 **Appendix A** shows the breakdown of counterparties and investments for the Authority.

5. Budgeted Income and Return

5.1 The authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 4 below:

Table 4: Treasury investment performance 2020-21

	Benchmark Return 3 month LIBOR (Average Quarterly Rate) %	Budgeted Rate of Return %	Budgeted Interest (Full Year) £m	Weighted Actual Rate of Return %	Actual Interest to end of Quarter £m
Quarter 1	0.14	0.80	1.700	1.00	0.639
Quarter 2	0.06	0.80	1.700	0.98	0.290
Quarter 3	0.02	0.80	1.700	0.68	0.541
Quarter 4	0.08	0.80	1.700	0.46	0.282

6. Regulatory Changes

6.1 The PWLB consultation concluded their review, effective from 26th November 2020 - the main headlines were:

- PWLB rate was lowered by 100bps (or one percentage point) for all new Standard Rate and Certainty Rate loans. This takes PWLB borrowing back to a margin of 80bps (0.8%) above the equivalent Gilt rate, which is the position pre October 2019 and prior to the PWLB consultation.

- As a condition to access to PWLB, authorities were asked to submit a high level description of capital spending for 3 years.
- The S151 officer of the authority confirmed there was no intention to buy investment assets primarily for yield any time in the next 3 years

6.2 On the 1st February 2021 CIPFA released a consultation setting out their proposed changes to the current version of the Prudential Code (previously updated in 2017).

- The main focus of the proposal is to address the risk associated with the commercial property acquisition(debt for yield), following comment from the Public Accounts Committee and National Audit Office report.
- The PWLB(i.e. HM Treasury) will not lend for debt for yield(commercial/profit) schemes. The PWLB will not lend to an authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

6.3 CIPFA released consultation setting the proposed changes to the current version of the Treasury Management code (previously updated in 2018). There are 3 main impacts on the Treasury Management Practices (TMP) which support the authority's Treasury Management Strategy Statement .

- TMP 10 Training and Qualification: The current requirement is to ensure that the organisation recognises the importance of all staff and board/ council members having the required skills and knowledge to be able to undertake their duties and responsibilities.
- TMP 12 Corporate Governance:The proposal of more complex treasury management functions and decision and corporate responsibilities arising from MIFID11 (Markets In Financial Instruments and Directive) and TMP 12 to be broadened.
- TMP 13 Environmental, Social and Governance Management: This is an additional TMP recommended that a framework for due diligence to cover all external investments.

7. Compliance with Treasury and Prudential Limits

7.1 During the year, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in **Appendix B** of this report.

Financial implications and risks:

The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

Risk is inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report.

The report has no direct equalities implications.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the

Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Health and Wellbeing implications and risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Appendix A

Table 1 breakdown of treasury deposits at 31st March 2021

Institution Type	Start date	Maturity	Rate	Amount
UK Bank				
Goldman Sachs International	15/10/21	15/07/21	0.1000%	5,000,000.00
Goldman Sachs International	26/01/21	26/07/21	0.1100%	5,000,000.00
Goldman Sachs International	01/02/21	02/08/21	0.1200%	5,000,000.00
Santander UK plc	01/06/18		0.4000%	20,000,000.00
Local Authorities & Other Public Sectors				
Dudley Metropolitan Borough Council	17/04/20	16/04/21	1.6000%	5,000,000.00
Mid Suffolk District Council	06/07/20	05/07/21	0.8500%	5,000,000.00
Swale Borough Council	25/08/20	24/08/21	0.2700%	5,000,000.00
Blackpool Council	29/10/20	28/10/21	0.3300%	5,000,000.00
Plymouth City Council	24/09/20	23/09/21	0.3200%	5,000,000.00
London Borough of Waltham Forest	23/09/20	22/09/21	0.3300%	5,000,000.00
Woking Borough Council	17/11/20	16/11/21	0.3500%	5,000,000.00
Wrexham County Borough Council	02/12/20	01/12/21	0.2500%	5,000,000.00
Denbighshire County Council	30/11/20	29/11/21	0.2500%	5,000,000.00
London Borough of Islington	26/04/16	26/04/21	1.7500%	5,000,000.00
Northumberland County Council	16/11/16	16/11/21	1.1000%	5,000,000.00
Slough Borough Council	18/12/20	17/12/21	0.2500%	5,000,000.00
London Borough of Haringey	10/12/20	09/12/21	0.2000%	5,000,000.00
West Dunbartonshire Council	29/12/20	29/06/21	0.1200%	5,000,000.00
Wokingham Borough Council	05/01/21	04/01/22	0.2000%	5,000,000.00
				110,000,000.00

Appendix B

Compliance Report

All treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Interest Rate Exposures

1.1.1 This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

	2020/21 Limit %	2020/21 Actual %	2021/22 Limit %	2022/23 Limit %
Upper limit on fixed interest rate exposure	100	97.36	100	100
Upper limit on variable interest rate exposure	30	2.64	35	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

1.2 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 2: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40	0	0
12 months and within 24 months	60	0	0.42
24 months and within 5 years	70	0	1.52
5 years and within 10 years	80	0	32.26
10 years and above	100	0	65.80

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

1.3 Principal Sums Invested for Periods Longer than 364 days

1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.3.2 The limits set in the 2020/21 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 3: Investments for periods longer than 364 days

	2020/21 Limit £m	2020/21 Actual £m	2021/22 Limit £m
Limit on principal invested beyond year end	75	-	75

1.4 Liquidity Treasury Indicator

1.4.1 The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing.

Table 4: Liquidity activity as at 31/03/2021

	Target £m	Actual £m
Total cash available by the next working day	5.000	-

Total cash available within 3 months	30.000	35.000

More liquidity was required to manage operational cash flow requirements.

1.5 Security Treasury Indicator

1.5.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 5: Security Treasury Indicator

	31.03.21 Actual	2020/21 Target
Portfolio average credit rating	A+	A+

1.6 Gross Debt and the Capital Financing Requirement (CFR)

1.6.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 6: Gross debt and the CFR at 31st March 2021

	31.03.21 Actual £m	31.03.21 Estimate £m	31.03.22 Estimate £m	31.03.23 Estimate £m
Long-term External Debt	265.234	265.234	265.234	265.234
General Fund	125.307	152.225	163.405	169.187
Housing HRA	212.752	249.521	320.561	391.107
Regeneration	63.444	181.158	214.454	229.156
TOTAL CFR	401.503	582.904	698.420	789.450
Internal Borrowing	136.269	317.670	433.186	524.216

1.6.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

1.7 Operational Boundary for External Debt

1.7.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. These limits may be reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 7: Operational Boundary

Operational Boundary	2020/21 £m	31.03.21 Actual	2021/22 £m	2022/23 £m
Borrowing	465.000	265.234	558.000	631.000
Other long-term liabilities	10.000	0.000	10.000	10.000
Total	475.000	265.234	568.000	641.000

1.8 Authorised Limit for External Debt

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

Table 8: Authorised limit for external debt

Authorised Limit	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	698.000	837.000	946.000
Other long-term liabilities	10.000	10.000	10.000
Total Debt	708.000	847.000	956.000
Long Term Debt	265.234	265.234	265.234
Headroom available (amount)	442.766	581.766	690.766

Glossary of Terms

Appendix C

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Monetary Policy Committee (MPC) is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

<p style="text-align: center;">ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE 2020/21 FINANCIAL YEAR</p>

1. Introduction

This reports covers the period April 2020 to May 2021 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Actions taking during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

2. Background

- 2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

Internal control

- To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

External audit

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

Internal audit

- To support the Officers with their delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

The Audit Structure (as at April 2019):

Audit Committee: Councillor Martin Goode (Chairman)
Councillor Viddy Persaud (Vice Chairman)
Councillor Gillian Ford
Councillor Gerry O'Sullivan
Councillor Judith Holt
Councillor Roger Ramsey

Internal Auditors: oneSource
External Auditors: Ernst & Young

During the year under review, the Committee met on four occasions and dealt with the following issues:

3. Audit Committee coverage

3.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

3.2 Regular work

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti-fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity; and
- The Accounts closedown timetable and progress reports.

3.3 Specific Review / Reports

There were several during the year including a review and approval of:

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of external Audit (EY).

Priorities and work plan for the forthcoming year

- 4.1 The Audit Committee is currently planned to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.
- 3.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.
- 3.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources in accordance with Public Sector Audit Standards Audit and Accounts Regulations 2015.
- 3.4 The Committee will focus on the embedding of the Risk Management arrangements agreed in the Revised Management Policy and Strategy.
- 3.5 Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward.
- 3.6 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.

AUDIT COMMITTEE AGENDA ITEMS – FROM JULY 2019 TO MAY 2020

July 2020

- Audic Committee Annual Report 19/20
- Annual Governance Statement 19/20
- Corporate Risk Register
- Head of Assurance Report
- Internal Audit Plan 20/21
- Draft Statement of Accounts 19/20
- EY Audit Plan 19/20
- Annual Treasury Management Report

October 2020

- Assurance Progress Report Q1 and Q2
- Mid-Year Treasury Management 20/21
- Whistleblowing Policy Report
- EU Transition Report

February 2021

- Accounting Policies 21/22
- Closedown Timetable 20/21
- LBH Council and Pension Fund Annual Statement 19/20
- AGS 19/20 Significant Issues
- Corporate Risk Register
- Draft Internal Audit Plan 21/22
- Internal Audit and Counter Fraud Report
- Treasury Management Strategy Statement 21/22 Report

April 2021

- Head of Assurance Report
- EY Audit Plan 20/21