



# Havering

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Thursday 28 July 2022</b>	<b>Town Hall, Main Road, Romford</b>
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Members 7: Quorum 3

**COUNCILLORS:**

**Conservative Group  
( 3)**

Judith Holt  
Keith Prince  
Michael White

**Havering  
Residents' Group  
( 2)**

Julie Wilkes  
(Chairman)  
David Godwin (Vice-  
Chair)

**Labour Group  
( 1)**

Jane Keane

**East Havering  
Residents Group  
(1)**

Vacancy

**For information about the meeting please contact:  
Christine Elsasser 01708 433675  
christine.elsasser@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:-

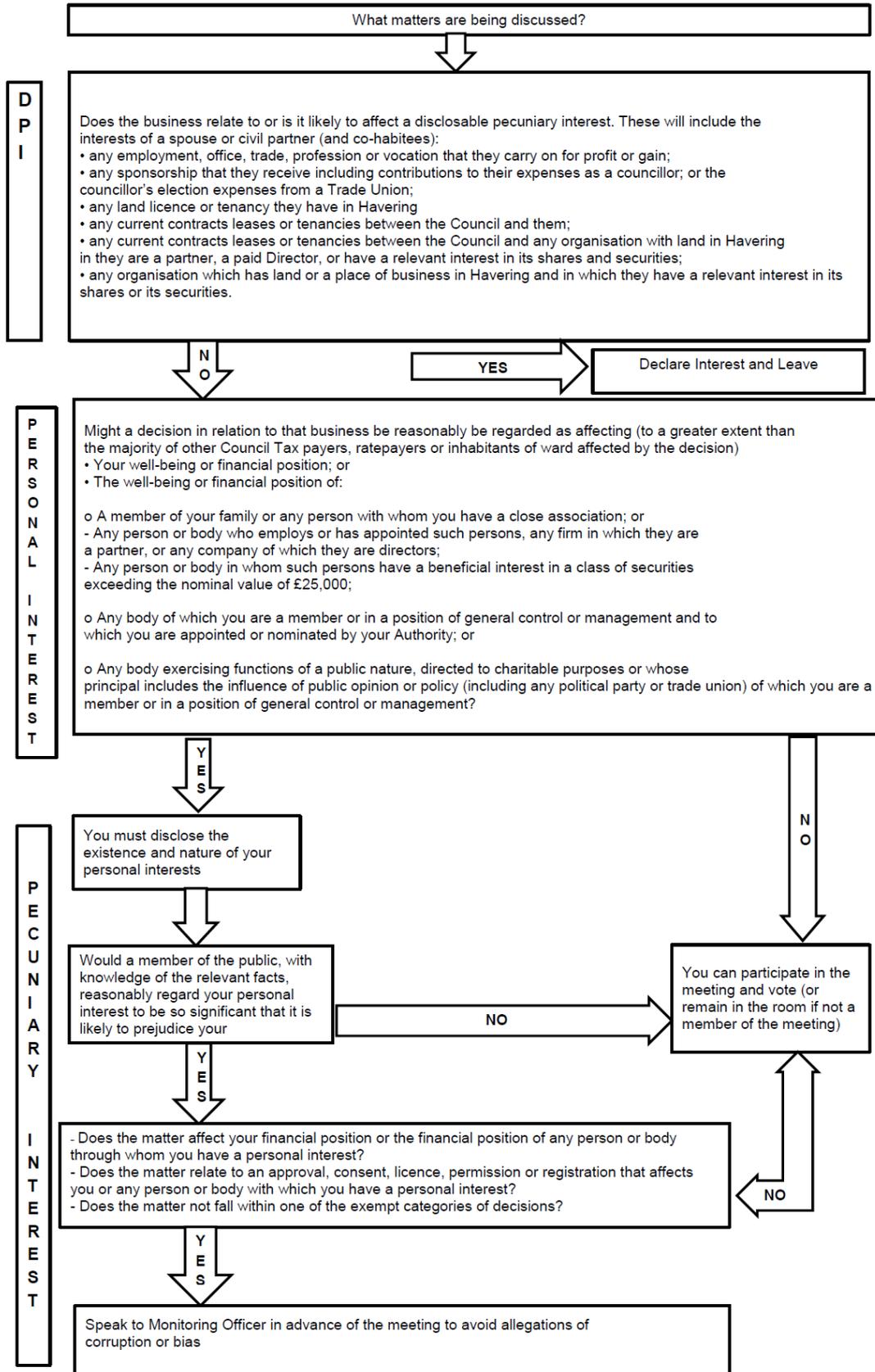
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 22 FEBRUARY 2022 (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 22 February 2022 and authorise the Chairman to sign them.

### 5 INTERNAL AUDIT PLAN 2022/23 (Pages 5 - 10)

Report and appendices attached.

### 6 HEAD OF ASSURANCE ANNUAL REPORT (INCLUDING 2021/22 INTERNAL AUDIT PLAN OUTTURN) (Pages 11 - 32)

Report and appendices attached.

### 7 TREASURY MANAGEMENT ANNUAL REVIEW 2021-22 (Pages 33 - 52)

Report attached.

**Zena Smith**  
**Democratic and Election**  
**Services Manager**

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
via ZOOM  
22 February 2022 (7.00 - 8.30 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group** Roger Ramsey and Judith Holt

**Residents' Group** Gerry O'Sullivan

**Upminster & Cranham  
Residents' Group** Gillian Ford

**North Havering  
Residents Group** Martin Goode (Chairman)

Apologies were received for the absence of Councillor Viddy Persaud.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding virtual protocol and the decision making process followed by the Committee.

**81 MINUTES OF THE MEETING**

The meeting minutes of the Committee held on 28 October 2021 were agreed as a correct record and would be signed at a later date.

**82 ASSURANCE PROGRESS REPORT**

The Committee were presented with a report outlining the work undertaken by the Assurance Service during the period from 1<sup>st</sup> October to 31<sup>st</sup> December 2021.

The Committee noted that six audit reviews were completed during the period. Two were schools and both given a reasonable assurance. Of the other four system reviews, one was given Limited Assurance and one Reasonable Assurance. Of the remaining two, one was a Grant Review and one was an externally commissioned piece of work, where an assurance opinion was not usually provided. Section 6 of Appendix A shows the current position of the 2021/22 audit plan.

It was explained that there were six high risk recommendations raised in the reports and that the detail of these, including management responses and deadlines for expected completion was included within the report summaries in section 4 of Appendix A.

In terms of counter fraud, it was to be noted that the service were continuing to follow up, fraud referrals, desk based intelligence checks and investigations with

door step visits and Interviews under Caution where necessary (following all Covid-19 social distancing measures).

It was explained that during the 1<sup>st</sup> October to 31<sup>st</sup> January 2022 five referrals were received; four of which were Whistleblowing referrals. Two cases had been investigated and concluded and three referrals were currently being investigated.

The Committee **noted** the contents of the report.

### 83 **ACCOUNTING POLICIES 2022-23**

The Committee were presented with a report that summarised the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2021/22 were prepared in accordance with accounting regulations.

It was noted that any further changes to accounting regulations would require the policies to be changed further, however none were anticipated at this stage. Any significant changes to the 2021/22 policies would be highlighted to the committee in the Statement of Accounts report in January 2022.

It was explained that there were three options to explore for procurement for the audit in 2022/23. Officers confirmed that most councils go through the PSSA route as it offered the highest cost saving and an economy of scale due the large group of authorities that chose it. Members confirmed that they **supported** the recommendation of going through the PSSA route and it was confirmed that the next step would be for it to be considered within an Executive Decision.

Discussion took place around valuation of assets, school valuations when it came to academies and clarification of heritage sites. Officers explained that the Council used external auditors for the valuation of assets and as there was queries on the classification of heritage sites they would need to come back to Members on that.

The Committee **noted** the report.

### 84 **CLOSEDOWN TIMETABLE 2021-22**

The Committee were presented with a report that advised them of the progress to date in preparing for the closure of the 2021/22 Accounts.

It was noted that the Council closed its accounts and prepared its Financial Statements for 2020/21 in the last week of July 2021. The external audit of the accounts was still ongoing at January 2022 and was due to be completed by the 30<sup>th</sup> September 2021 (an extension for Covid-19 as would have normally been done 31<sup>st</sup> July).

It was explained that the report outlined the Council's preparations to ensure the 2021/22 accounts were published and audited on time. The priority for the closure programme was to ensure that all key activities had been captured in the timetable, and that the roles and responsibilities had been identified and understood.

Furthermore, the date was being considered for 2021/22 accounts as it may even be reverted back to 31 May. The auditor's advice was to publish the draft by the deadline.

The Committee **noted** the report.

**85 HOUSING COMPLIANCE AUDIT**

The Committee were presented with a report that outlined the Council's duty to ensure all of its properties which were owned and managed through the Housing Revenue Account were safe and met all relevant statutory compliance.

It was also noted that as part of the Council's assurance and governance approach toward housing compliance it undertook an independent audit of its compliance activities, using an external consultant, Mazars, and the report provided a summary of that audit and an update on the outcomes and actions identified.

The Committee **noted** the report.

**86 MID-YEAR TREASURY REVIEW 2021-22**

The Committee were presented a report on the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code") required authorities to produce a mid-year report on their treasury management activities.

The Authority's Treasury Management Strategy Statement (TMSS) for 2021/22 was approved at the Cabinet meeting on 26th February 2021 and at Full Council on the 3<sup>rd</sup> March 2021.

The Authority borrowed and invested substantial sums of money and was therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The report covered activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The Committee **noted** the report.

**87 TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2022-2023**

The Committee were presented with a report that set out how the TMSS was part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) TM Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The Local Government Act 2003 required authorities to comply with both codes. The TMSS also set out recently introduced changes to the legislative framework, which was generally designed to place restrictions on authorities' commercial activity.

It was also noted that the report fulfilled the authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Government Guidance, and it covered:

- The Borrowing and Investment Strategies.
- Treasury Management and Prudential Indicators - there was a change to them from the revised CIPFA TM published in December 2021 and was discussed later in this report and will be reported upon in the 2023-24 TMSS.

The Committee **noted** the report.

The Committee also took the opportunity to thank Jane West for all her work over the years and wished her well with her future endeavours.

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**Chairman**



## AUDIT COMMITTEE 28 07 2022

<b>Subject Heading:</b>	Internal Audit Plan 2022/23 Consultation
<b>SLT Lead:</b>	Dave McNamara, Interim Section151 Officer
<b>Report Author and contact details:</b>	Jeremy Welburn Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: <a href="mailto:jeremy.welburn@onesource.co.uk">jeremy.welburn@onesource.co.uk</a>
<b>Policy context:</b>	To inform the Committee of the proposed audit plan for 2022/23
<b>Financial summary:</b>	There are no financial implications arising from approving the audit plan/strategy. It is expected that the costs of implementing both will be contained within the oneSource revenue budget for internal audit.

### 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**

The Public Sector Internal Audit Standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. The report sets out the approach to producing the Internal Audit plan and invites comment from Members.

## **RECOMMENDATIONS**

1. To comment on the 2022/23 Internal Audit Plan.
2. To raise any issues of concern and ask specific questions of officers, where required.

## **REPORT DETAIL**

### **1. Introduction**

- 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.
- 1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a straightforward 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, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

- 1.3 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.
- 1.4 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.

## **2. Internal Audit Plan**

- 2.1 To develop the 2022/23 audit plan and to ensure that this reflects the Council's strategic risks, officers within the Assurance Service have been involved in discussions with the Section 151 Officer, Directors and senior management to review risks in their areas.
- 2.2 The plan has been developed using a thematic approach, in line with the Corporate Plan priorities for 2022/23. While a number of key risk areas and audits have already been identified, there is an allocation to carry out risk mapping. Additional budget has been provided for compliance work, to enable the Internal Audit Team to develop and embed the use of Power BI and data analytics. It is proposed that the 2022/23 plan is flexible to allow for changes in the risk and operational environment in which the Council operates.
- 2.3 Attached as Appendix 1 is the Internal Audit Plan 2022/23. The Plan is exclusive of Counter Fraud investigations but there is a provision for Internal Audit staff to support Counter Fraud work on system related work.

Appendix 1 Internal Audit Plan 2022/23 for LB Havering

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

There are no financial implications arising from approving the plan. The financial implications arising from implementation of the plan are predominantly staffing costs and associated resources. It is expected that costs will be contained within the oneSource shared budget for internal audit and any variance will be reported and addressed through budget monitoring processes.

By maintaining an adequate audit service to serve the Council, 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.

**Legal implications and risks:**

There are no apparent risks in noting the content of the report. Failure to effectively manage risks is likely to have legal consequences.

**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.

Appendix 1 - Internal Audit Plan 2022/23

Audit Area	Proposed Scope/Audit Work	Proposed Timing	Estimated Budget (Days)
<b>Core Assurances &amp; Cross Cutting</b>			
<b>Governance</b>			
<b>General Governance Work</b>	To include co-ordination of Annual Governance Statement and production of Audit Committee / SLT reports.	Ongoing	60
<b>Assurance Work</b>			
<b>General Assurance Work</b>	Advice and Consultancy, Audit Plan Management, Follow up of recommendations and Counter Fraud Support.	Ongoing	80
<b>Grant reviews</b>	To include ongoing Supported Families review and any other grants arising during the year that require audit review / sign off.	As need arises	
<b>Compliance Work</b>			
<b>Key financial audits</b>	Ongoing compliance work for key financial areas as a rolling programme of work.	Q1-3	30
<b>Risk</b>			
<b>Risk &amp; Assurance Mapping</b>	Identifying ongoing or planned work across services that provide additional assurances.	Ongoing	160
<b>Joint Counter-Fraud Work</b>	Increased Internal Audit and Counter-Fraud collaboration.	Ongoing	
<b>Contingency allowance and provision for assurance work on emerging risk</b>		As need arises	
<b>Opportunities</b>			
<b>Shared Service: Procurement</b>	To review processes following on from limited assurance report issued in 19/20.	Q3	60
<b>Shared Service: Contract Management</b>	Review of contract management and monitoring arrangements based on a risk based sample selection.	TBC	
<b>Place</b>			
<b>Neighbourhoods: Highways Services</b>	Review of service risks and controls.	Q3	50
<b>Neighbourhoods: Planning</b>	Review of service risks and controls.	Q4	
<b>Communities</b>			
<b>Children's: SEND Transport</b>	Continuation of review started in 2021/22. Review of SEND Transport arrangements due to high costs involved	Q1	220
<b>Children's: School audit programme</b>	Rolling triennial programme of maintained schools audits and bought-in Health Checks.	Ongoing	
<b>Adults: Safeguarding Adults</b>	To assist in preparation for peer review.	TBC	

Appendix 1 - Draft Internal Audit Plan 2021/22

<b>Adults: Direct Payments</b>	Continuation of work started in 2021/22 plan. To ensure that recommendations implemented as a result of 19/20 audit have mitigated the risks and the controls are effective.	Q1	
<b>Adults: Continuing Health Care</b>	To consider VfM and review processes since this is an area of increasing cost pressures.	Q2	
<b>Housing: Compliance work</b>	Focus on data management and recording, reliance on performance data and decision making as a result. Scope to be reviewed and agreed.	Q1/2	
<b>Housing: Service Charges</b>	Compliance with legislation for service charges to tenants and leaseholders.	Q3	
<b>Housing: Property buy-back</b>	HRA and regeneration property buy back – to ensure this is carried out correctly.	Q4	
<b>Connections</b>			
<b>Shared Service: ICT</b>	ICT work to be scoped following ongoing security risk assessments.	Ongoing	40
<b>Total Audit Plan (Days)</b>		700	



## AUDIT COMMITTEE 28 07 2022

**Subject Heading:**

Head of Assurance Annual Report and  
2021/22 Internal Audit Plan Outturn

**SLT Lead:**

Dave McNamara, Interim Section151  
Officer

**Report Author and contact details:**

Jeremy Welburn, Head of Assurance  
Tel: 01708 432610 / 07976539248  
Email: [jeremy.welburn@onesource.co.uk](mailto:jeremy.welburn@onesource.co.uk)

**Policy context:**

To present a summary of the outcomes of  
Internal Audit and Counter Fraud work  
completed during 2021/22 and the Head  
of Assurance's annual opinion.

**Financial summary:**

There are no financial implications or risks  
arising directly from this report which is for  
information only.

### 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 brings together all aspects of audit, assurance and counter fraud work undertaken in the 2021/22 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2021/22.

**RECOMMENDATIONS**

Members are asked to consider the Assurance End of Year Report 2021/22 incorporating Head of Assurance Opinion and to make any appropriate recommendations.

**REPORT DETAIL**

**1. Introduction**

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.

1.2 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.

1.3 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.

1.4 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.

1.5 This report summarises the outcomes of audit and counter fraud work undertaken during 2021/22 in support of the Audit Committee's role.

1.6 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.

Appendix 1: Head of Assurance Annual Report and 2021/22 Internal Audit Plan Outturn. This report is presented in the following sections:

- Section 1: Head of Assurance Annual Opinion
- Section 2: Outturn of 2021/22 Internal Audit Plan
- Section 3: Limited Assurance Report Summaries and Recommendations
- Section 4: Audit Recommendations Update
- Section 5: Schools Programme
- Section 6: Counter Fraud
- Section 7: Risk Management Arrangements
- Section 8: Governance Arrangements
- Section 9: Audit Committee
- Section 10: Audit Work Undertaken during 2021/22

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

There are no financial implications or risks arising directly from this report which is for information only.

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:**

Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to conduct a review of the effectiveness of the system of internal control which must be considered by the relevant committee or by full Council. This report seeks to comply with that statutory obligation and there are no apparent risks in considering the end of year report.

**Human Resources implications and risks:**

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

**Climate Change implications and risks:**

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register, added into the Internal Audit Plan and incorporated into the scope of audits where relevant.

**Equalities implications and risks:**

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, 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.

# Assurance End of Year Report 2021/22 incorporating Head of Assurance Opinion

## 1 Head of Assurance Annual Opinion

- 1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed by Internal Audit on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This is achieved through an audit plan that is focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.
- 1.2 In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council’s risk profile.
- 1.3 From the work undertaken during the 2021/22 year, reasonable assurance can be provided that there is generally a sound system of internal control across the Council. This opinion is broadly consistent with the 2020/21 view. However, it should be noted that the reasonable assurance opinion provided this year contains three areas of significant issues, as detailed below:
- ICT delivery and project management;
  - Interface between the Fusion system and business users; and
  - Procurement continues to be an area of continued risk, particularly with the challenging financial position the Council faces.

The Internal Plan will continue to focus on these areas to provide assurance to the Audit Committee.

- 1.4 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management’s progress in respect of addressing control weaknesses.
- 1.5 The table below provides a summary of Audit Opinions issued in 2021/22. 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.

<b>Audit Category</b>	<b>No Opinion</b>	<b>Reasonable</b>	<b>Limited</b>
LBH Systems Audits	8	7	4
LBH Schools Audits	0	13	0
Academies	0	2	0
<b>Total</b>	<b>8</b>	<b>21</b>	<b>4</b>

**Appendix 1 - Audit Committee 28 July 2022**

1.6 The table below provides the definitions of the assurance levels provided by internal audit:

<b>Key to Assurance Levels</b>	
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.

**2 Outturn of 2021/2022 Internal Audit Plan**

- 2.1 The Annual Audit Plan was approved by 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 the table in section 10.
- 2.2 The table below details the results of the final reports issued / reviews completed, up until the end of 2021/22, and since the last progress report presented to Members in February 2022:

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
<b>System Audits</b>					
Environmental Health	Reasonable	0	3	0	3
Post Implementation Review of Liquid Logic	Reasonable	0	2	0	2
Youth Justice Service	Reasonable	0	2	0	2
Voids Follow Up	Limited*	3	0	0	3
Supported Families (Final Review)	Reasonable	0	0	0	0
<b>System Audits Total</b>		<b>3</b>	<b>7</b>	<b>0</b>	<b>10</b>
<b>School Audits</b>					
Nelmes Primary	Reasonable	0	3	4	7
Branfil Primary	Reasonable	0	2	4	6
Ardleigh Green	Reasonable	0	1	6	7
Hylands Primary	Reasonable	0	5	8	13
Parsonage Farm	Reasonable	0	2	2	4
<b>School Audits Total</b>		<b>0</b>	<b>13</b>	<b>24</b>	<b>37</b>

\*This review remains limited as three high risk recommendations are still in the process of being implemented. It should be noted that these are the existing recommendations from the original report and are not new recommendations arising from the follow up.

**3 Limited Assurance Report Summaries and Recommendations**

**3.1 Voids Follow-up – Executive Summary**

As part of the Internal Audit Plan for 2021/22 agreed by Audit Committee, a review of Housing Voids was undertaken and resulted in a Limited Assurance on the system of internal control being given.

**Scope of Review**

The scope of this review focused on following up on the implementation of recommendations raised during the original 2021/2022 Housing Voids audit.

**Summary of Findings**

Four of the recommendations raised have now been implemented, with three high risk recommendations partially implemented. Although progress has been made to address the weaknesses identified during the initial audit, there are still some outstanding issues. Therefore the audit assurance remains as Limited Assurance.

A new provider for void properties will take over from April 2022, as part of the tender a new set of agreed procedures has been developed. A further review will be undertaken of the outstanding recommendations during quarter one 2022/23 to establish that the new procedures have led to the full implementation of the outstanding recommendations.

Expected Outcome	Management Response inc Planned Actions
<p><b>Recommendation 1 (Medium):</b> In order to know whether rent charges have been accurately applied there should be a standard approach adopted that is consistent on all communications with tenants. This should include a definitive cut off point from when rent accounts will be extended, and maintaining a record of keys expected to be returned.</p>	<p>To identify all procedures and customer information that have been written with conflicting information and ensure they are updated and reflect the new cut off points. (Completed August 2021). We will train all staff including the new senior officers on the approach and we will monitor the performance accordingly.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> Tenancies can now be ended midweek. Agreement with Housing Benefit team was provided to show this is possible within Academy. This recommendation has now been implemented.</p>	

Expected Outcome	Management Response inc Planned Actions
<p><b>Recommendation 2 (High):</b> A date should be agreed to fully adopt the Repairs Policy for Council general needs stock, and processes put in place to be able to accurately monitor the level of tenant recharges.</p>	<p>The policy is live, but we have not currently implemented the recharge approach. We will ensure a robust process is in place of identifying, recording and managing recharges, and ensuring there is a clear auditable information trail to justify and evidence recharges. We will use Open housing functionality for recording and managing recharges. A monetary credit to the service need to be provided in the accounts, irrespective of whether the monies are recovered or appropriate budget allowances made.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> The returns policy has now been fully adopted. Action is being taken to record the recharge costs for repairs work, with examples of property Pi documents provided during the follow up to evidence that this is now being completed.</p> <p>It is expected this process will be in place for all properties in time for the new repairs contract which goes live in April 2022.</p> <p>The repairs contract has been tendered with a new provider being in place from April 2022. As part of the tender process an end to end process has been produced which.</p> <p>In order to allow time for the new processes to be embedded the delivery date for this recommendation has been extended to July 2022.</p>	
<p><b>Recommendation 3 (Medium):</b> A standard approach should be put in place for the recording of which costs can be recharged for each void.</p>	<p>As above</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> Potential recharges are recorded as part of the handover pack and stored in Swordfish along with relevant photos. A completed property PI document was provided to evidence that these costs are now being separated. This recommendation has now been implemented.</p>	

Expected Outcome	Management Response inc Planned Actions
<p><b>Recommendation 4 (Medium):</b> Swordfish/ Open Housing should be utilised as a document retention system, for all void documents, to enable all information to be stored in one easily accessible location.</p> <p>Communication should be sent to all staff to remind them that Swordfish/ Open Housing is the services document retention system.</p> <p>Training should be provided to ensure staff comply with document retention expectations.</p>	<p>We liaise with Housing IT over naming protocols etc, all void information going forward will be stored on Swordfish and we will try to consolidate historic information onto one central drive.</p> <p>Training on Swordfish Additional training will be provided where necessary. The service will strengthen the monitoring of the existing process with additional staff briefings and training.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> Swordfish is now used for all document retention in relation to void properties. An example of a completed void property was provided from Swordfish to evidence that this recommendation is now completed. This recommendation has now been implemented.</p>	
<p><b>Recommendation 5 (High):</b> The void process sheet should be completed to ensure that all required compliance checks are completed and the relevant documentation maintained on file.</p>	<p>Staff will instructed to complete the forms, and as part of the restructure sufficient back office staff will be in the service to provide checks.</p> <p>We will look at possible IT solutions as part of the transformation project.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> The repairs contract has been tendered with a new provider being in place from April 2022. As part of the tender process an end to end process has been produced which includes details of when the checks will be undertaken as part of the PSL Voids process.</p> <p>Included within the new tender contract (Appendix 34) is the Void Specification – Works and Standard Procedures which lists all of the checks to be undertaken during the Voids process. This includes details on the steps to be undertaken for Electrical and Gas Safety checks. Implementation of the recommendation has been extended to July 2022.</p>	

Expected Outcome	Management Response inc Planned Actions
<p><b>Recommendation 6 (Medium):</b> Staff should be provided with equipment to be able to accurately record and reflect the work identified and completed for each void; Accompanying procedures and training should be put in place to ensure staff are aware of their responsibilities with regard to any equipment supplied.</p>	<p>Management accepts that there has been difficulties in obtaining and equipment. In particular with mobile phones and ICT. This will be escalated with the IT service accordingly.</p> <p>The service will work with the ICT constraints to issue all staff with suitable equipment. Suitable training will be provided.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> Staff have now been provided with the required equipment to be able to record the condition of the property, both before and after works have been completed. Evidence was provided of recent void properties that showed comprehensive photographic records of the property throughout the void process. This recommendation has now been implemented.</p>	
<p><b>Recommendation 7 (High):</b> A recovery plan, including target dates, should be set for performance to improve to the expected levels following the easing of Covid restrictions.</p>	<p>A voids action plan has been produced where weekly updates are now provided in relation to voids data and performance monitoring.</p> <p><b>Timescale:</b> September 2021</p>
<p><b>Audit Update:</b> A copy of the action plan was provided when the Voids audit report was issued in July 2021. As the new voids contract is due to begin in April 2022, a review of key performance indicators will be completed once the new provider has had time to implement the agreed processes. Implementation of the recommendation has been extended to July 2022.</p>	

**4 Audit Recommendations Update**

- 4.1 Internal Audit follows up all audit recommendations with 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. A key element 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.
Low:	Advisories - Pertaining to best practice.

- 4.4 The status of all recommendations raised during 2021/22 is outlined within the table below:

<b>Systems Audits</b>				
<b>Number of Recommendations</b>	<b>High</b>	<b>Med</b>	<b>Advisory</b>	<b>Total</b>
Recommendations raised since the last progress report	0	6	0	6
Total Recommendations Raised during 2021/22	10	15	2	27

<b>School Audits (including Academies)</b>				
<b>Number of Recommendations</b>	<b>High</b>	<b>Med</b>	<b>Advisory</b>	<b>Total</b>
Recommendations raised since the last progress report	0	13	24	37
Total Recommendations Raised during 2021/22	0	40	66	106

- 4.5 The details of the high risk recommendations were provided to Members in each of the progress reports provided at the previous Audit Committee meetings. It can be confirmed that all high risk recommendations raised during 2020/21 that were due by 31<sup>st</sup> March 2022 have been implemented.
- 4.6 The table below provides details of all recommendations raised for systems audits during 2021/22 and the status as at 31<sup>st</sup> March 2022. All recommendations are followed up to obtain a progress update from management each quarter. The next review will take place in July 2022.

**Appendix 1 - Audit Committee 28 July 2022**

<b>Risk</b>	<b>Recommendation</b>	<b>Status as at 31/03/22</b>
<b>HMO Enforcement</b>		
Medium	To reduce the risk of information stored on APP not being accurate the source documentation (including emails) should be uploaded as a document and made readily available.	Implemented
Advisory	In order to ensure that all relevant documents have been completed and sent, a checklist should be devised, outlining the documents/ steps of the enforcement process. This should then be completed throughout the duration of the enforcement to provide a single, complete, source of assurance that all relevant steps were followed.	Implemented
<b>Voids</b>		
Medium	In order to know whether rent charges have been accurately applied there should be a standard approach adopted that is consistent on all communications with tenants. This should include a definitive cut off point from when rent accounts will be extended, and maintaining a record of keys expected to be returned.	Implemented
High	A date should be agreed to fully adopt the Repairs Policy for Council general stock, and processes put in place to be able to accurately monitor the level of tenant recharges.	Revised End July 2022
Medium	A standard approach should be put in place for the recording of which costs can be recharged for each void.	Implemented
Medium	Swordfish/ Open Housing should be utilised as a document retention system, for all void documents, to enable all information to be stored in one easily accessible location. Communication should be sent to all staff to remind them that Swordfish/ Open Housing is the services document retention system. Training should be provided to ensure staff comply with document retention expectations.	Implemented
High	The void process sheet should be completed to ensure that all required compliance checks are completed and the relevant documentation maintained on file.	Revised End July 2022
Medium	Staff should be provided with equipment to be able to accurately record and reflect the work identified and completed for each void; Accompanying procedures and training should be put in place to ensure staff are aware of their responsibilities with regard to any equipment supplied.	Implemented
High	A recovery plan, including target dates, should be set for performance to improve to the expected levels following the easing of Covid restrictions.	Revised End July 2022

<b>Social Care - Contract Award</b>		
High	Governance procedures should be established within the JCU to ensure that all activity and any contract variations are undertaken with appropriate Legal Service and Procurement Service guidance, to ensure these comply with Council and Legislative regulations.	Implemented
<b>Reablement - Quality Review</b>		
Medium	Action should be taken to limit the number of end reasons available to staff to select and align the reasons with those reported as part of the annual SALT Return. Staff should be suitably informed of these changes.	Implemented
Medium	Staff should be informed of the importance of ensuring that information received from the provider and subsequently entered onto LAS is both complete and accurate. This should include raising awareness as to the wider impact of incorrect / incomplete information as outlined in the finding above. This should be followed by a period of temporary spot checking to ensure that the provider is meeting any contractual obligation in relation to the provision of information to the Council and that staff are accurately entering data onto LAS.	Implemented
Advisory	It is advisable that a reconciliation is undertaken after a period of time between reablement provision date held by the provider against LAS to ensure that LAS is up to date and accurate and that ensure that recommendations 2 and 3 have had a positive impact.	Not Applicable
<b>The Payroll System</b>		
High	In order to reduce the number of exceptions being reported and strengthen the exception report process, a review should be undertaken of the current report parameters in order to remove exceptions not related to changes in pay and allow variations to be categorised by type, enabling high volume / low risk exceptions to be identified and officers to carry out a more targeted approach to checks.	Implemented
High	Action should be taken to recover the two overpayments identified during the audit.  However, given the small sample from which these overpayments were identified, it would be considered proportionate to review all leavers, to ensure action has been taken to recover any overpayments identified.	Implemented

**Appendix 1 - Audit Committee 28 July 2022**

High	<p>Management should review the current process of logging errors identified through the exception report process.</p> <p>As part of this review, Management should look to standardise the comments being recorded by Payroll Officers, to provide a clear and concise explanation of the exception, allowing exception reasons to be monitored.</p> <p>Consideration should be given to secondary checks by Payroll Team Leads and how to ensure any follow up action is undertaken, such as the raising of sundry debtor accounts.</p> <p>Once reviewed, staff should be reminded of the importance of this process.</p>	Not Due Until End April 2022
Medium	<p>Management should investigate the current Fusion Payroll system default of putting employees back into full pay after one year. Depending on the number of instances occurring each year, action should be taken to either stop the system taking this action or to introduce a manual process to monitor cases and take remedial action where necessary.</p>	Not Due Until End April 2022
High	<p>A post implementation review of the Fusion Payroll system should be undertaken. The aim of this review should be to:</p> <ul style="list-style-type: none"> <li>• Understand the internal Fusion Payroll system processes;</li> <li>• Determine the impact of making manual adjustments to the system;</li> <li>• Identify where system functionality has required manual workarounds to be put in place;</li> <li>• Ensure manual processes work cohesively alongside the system; and</li> <li>• Build resilience within the team.</li> </ul>	Revised End July 2022
Medium	<p>Exceptions should be added to Payroll's Key Performance Indicators (KPI) with the aim of reducing the number of exceptions occurring.</p>	Implemented
High	<p>In order to address non-compliance and reduce the unnecessary pressures being created within the Payroll, management should look to utilise the Manager Dashboard. Ensuring Managers have access to purposeful information will enable greater responsibility and accountability for maintaining the accuracy of the payroll, in keeping with the Council's self-service model.</p>	Not Due Until End April 2022
High	<p>In order to reduce the level of reliance on Evosys for system support, the Payroll Team and Systems Team should seek to clarify the roles, responsibilities and expectations of both teams in relation to the raising and reporting of Payroll Fusion issues. Given the costs associated with raising requests with Evosys, the process should ensure that where applicable, there is an agreement by both teams that the issue needs to be escalated to Evosys.</p>	Implemented

**Appendix 1 - Audit Committee 28 July 2022**

<b>Environmental Health</b>		
Medium	In order to ensure that staff are aware of their responsibilities, in relation to the delivery of the service, local procedures should be developed. These should be a reference guide to staff to ensure consistency in the delivery of the service	Not Due Until End April 2022
Medium	A process should be developed that allows staff to record all of their notes and paperwork on system. This process should ensure that all the relevant information is available to staff to review and evidence if needed.	Implemented
Medium	Action should be taken to formalise the data retention period and remove historical data that exceeds the agreed limit.	Not Due Until End July 2022
<b>Post Implementation of Liquid Logic</b>		
Medium	Analysis to be undertaken on the calls received to be able to identify comment themes/ trends among the issues raised by staff.	TBC
Medium	In order to reduce the reliance from staff on the PMO Systems team for general process queries the following should be considered. <ul style="list-style-type: none"> <li>• An automated response for all calls that includes a link to the user guides/ videos</li> <li>• A record of common queries/ questions and their answers available on the automated response or with the user guides</li> <li>• Regular drop in sessions open to all users to ask process type queries</li> </ul>	TBC
<b>Youth Justice</b>		
Medium	Management should continue to monitor timescales for cases to be seen by the initial referral panel and have a plan of action in place to ensure the target of 20 working days is consistently achieved.	Not Due Until End July 2022
Medium	Management should continue to monitor timescales for the cases seen by the initial referral panel and have a plan of action in place to ensure the target of 20 working days is consistently achieved.	Not Due Until End July 2022

## **5 Schools Programme**

- 5.1 There are currently 42 borough maintained schools within Havering. Of these, 35 schools will have received a triennial audit between the financial years 2019/20 – 2021/22. The remaining seven maintained schools were assessed on the assurance given at their last triennial audit and considered to be low risk; therefore a triennial audit was not delivered as part of the three year rolling programme. These schools have received at least one health check since their last triennial visit, and are scheduled to be reviewed as part of the 2022/23 audit plan.
- 5.2 In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes noted in paragraph 4.4 below.
- 5.3 Assurance opinions are given for each school report. Currently, eight schools out of the 16 schools due in 2021/22 have received their Triennial audit, with one being underway the remaining seven audits moved to the 2022/23 plan. All of the eight schools who have received a triennial audit in 2020/21, received Reasonable Assurance.
- 5.4 Recommendations raised during the 2021/22 audits produced some common themes found across multiple schools:
- Orders should be raised on the finance system before the invoice is received;
  - Only authorised users should have access to the FMS Finance system ; and
  - Details within the school Emergency Plan should be reviewed and updated.
- 5.5 During 2021/22, the service was due to deliver eleven Health Checks, generating total revenue in year of £ 10,340. Due to COVID 19, and the resulting closure of all schools, seven Health Checks bought for the period 2020/21 were given priority and delivered. Ten of the Health checks bought forward for 2021/22 are currently underway, with one deferred to September 2022.
- 5.6 The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the risk based internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

**6 Counter Fraud**

- 6.1 **Corporate Fraud** - The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority. The team offers both a criminal, proactive and reactive support service. The team have looked into 25 cases this financial year, including current investigations into allegations of theft, procurement/contractor fraud and employee/consultant working practices.
- 6.2 **Housing Fraud** - The Council take a zero tolerance approach to tenancy fraud and have 60 open investigations. The team will investigate all allegations of tenancy fraud and take action where we have sufficient evidence that fraud has taken place. This action can include a criminal prosecution and/or a claim for possession of the property through civil courts; we will always look to make a claim for any legal costs occurred as well as any relevant compensation due. It should be noted that the ability to investigate housing fraud has again been severely impacted by the lockdowns and Covid-19 restrictions throughout the year, with visiting of properties not being possible for a significant proportion of the year.
- 6.3 The team check on average 12 RTB applications per month to ensure that the Council are not losing stock fraudulently.
- 6.4 Proactive Counter Fraud Investigations

Proactive work undertaken during 01/01/2022 to 31/03/2022 is shown below:

<b>Description</b>	<b>Risks</b>	<b>Status</b>
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Two requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice was received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Five referrals were received.	Ongoing
FOI Requests	To undertake all Freedom of Information (FOI) Requests. One request was received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2020/21 NFI. All data has been uploaded in accordance with the NFI Specification. Matching has now been completed and the results are under review. The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years.	Ongoing

**6.5 Reactive Investigation Cases**

Three referrals were brought forward from the previous year and 22 cases were received during the year. Of the 25 cases:

- Two cases resulted in the employee's assignment not being renewed;
- Three cases resulted in a disciplinary investigation;
- Six cases were passed to Management for action;
- Six cases have been investigated where there was no case to answer; and
- Eight are still under investigation.

**6.6 Housing Cases**

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

<b>Description</b>	<b>2020/2021</b>	<b>2021/2022 (to date)</b>
Number of referrals	57	91
Properties recovered	2	6
Notional Saving	£36,000	£108,000
RTB checked	178	146
RTB stopped	4	2
Notional Saving	£449,200	£225,600
<b>Total Notional Saving</b>	<b>£485,200</b>	<b>£333,600</b>

## **7 Risk Management Arrangements**

- 7.1 The strategic risks to the achievement of the Authority's objectives are captured within a corporate risk register which is overseen by the Governance and Assurance Board (GAB) and progress reported to the Audit Committee. Work continued during 2021/22 to review the risks, overseen by the GAB to ensure that the corporate risk register reflects the risks facing the Council. During 2021/22 Internal Audit have taken a lead on implementing the JCAD Risk System, which will be used to record and monitor both Corporate and Directorate risks. Work will progress during 2022/23 to engage with Directors and offer workshops in JCAD and general risk management.
- 7.2 The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council's systems and procedures, and will be approved by the Audit Committee biannually.

## **8 Governance Arrangements**

- 8.1 There is an established officer Governance and Assurance Board at LB Havering, which the Head of Assurance attends. The work of Internal Audit informs this group and issues brought to the group and identified in the Annual Governance Statement (AGS), inform the annual audit plan. Governance arrangements are routinely considered as part of all internal audit reviews.

## **9 Audit Committee**

- 9.1 The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

**10 Audit work undertaken during 2021/22**

<b>LBH Systems Audits</b>		
<b>Audit Title</b>	<b>Status as at end 2021/22</b>	<b>Opinion /Comments</b>
Reablement Quality Review	Completed	Reasonable
HMO Enforcement	Completed	Reasonable
Business Continuity & Emergency Planning	Completed	Reasonable
Environmental Health	Completed	Reasonable
Youth Justice Service	Completed	Reasonable
Post Implementation Review of Liquid Logic	Completed	Reasonable
Supporting Families (includes phase one, mid-year review and end of year report)	Completed	Reasonable
Voids – Follow Up	Completed	Limited
Social Care Contract Award	Completed	Limited
Housing Voids	Completed	Limited
The Payroll System	Completed	Limited
Direct Debits	Completed	N/A - Advisory Review
Office Decant Process	Completed	N/A - Advisory Review
Project Management Review	Completed	N/A - Advisory Review
Joint Counter-Fraud work	Completed	N/A - Advisory Review
Public Protection – Risk Mapping (Phase 1)	Completed	N/A - Advisory Review
Mayor’s Appeal Charity Fund	Completed	N/A - Grant Review
Romford Combined Charities	Completed	N/A - Grant Review
Housing – Compliance work	Completed	N/A - Externally Commissioned Work
Governance Arrangements (Highways)	Underway	Included in 2022/23 Plan
Pro-active Data Matching Exercise (Accounts Payable and Payroll)	Underway	
Procurement inc Contract Management	Underway	
Projects and Programmes (ICT)	Underway	
Direct Payments	Underway	
SEND – Transport	Underway	
Social Care Transitions		Included in 2022/2023 Plan
Housing - Property buy-back		
Safeguarding Adults		
Housing - Service Charges		
Housing – Responsive Repairs		
Continuing Healthcare		
Planning		
Parking		Cancelled due to changes in risk profiles

<b>LBH Schools Audits</b>		
<b>Audit Title</b>	<b>Status as at end 2021/22</b>	<b>Opinion /Comments</b>
Rainham Village	Completed	Reasonable
The Towers Federation	Completed	Reasonable
Harold Wood Primary	Completed	Reasonable
Crownfield Juniors	Completed	Reasonable
Squirrels Heath Infants	Completed	Reasonable
St Edwards Primary	Completed	Reasonable
Crowlands Primary	Completed	Reasonable
Crownfield Infants	Completed	Reasonable
Nelmes Primary	Completed	Reasonable
Branfil Primary	Completed	Reasonable
Ardleigh Green	Completed	Reasonable
Hylands Primary	Completed	Reasonable
Parsonage Farm Primary	Completed	Reasonable
Emerson Park Academy	Completed	Reasonable
Shaw Academy	Completed	Reasonable
Brady Primary	Included in 2022/2023 Plan	
Engayne Primary		
Gidea Park 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)		



## AUDIT COMMITTEE 28 JULY 2020

### **Subject Heading:**

**Annual Treasury Management Report  
2021/22**

### **SLT Lead:**

**Dave McNamara Section 151 Officer**

### **Report Author and contact details:**

**Tony Piggott / Stephen Wild  
Treasury Manager / Head of Pensions  
and Treasury  
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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 2021/22. 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) 2021/22 was approved by Full Council on the 3 March 2021. This backward looking report covers the delivery of the TMSS in 2021/22.

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 2021-22 as detailed in the report.

**KEY HIGHLIGHTS**

- Investment income outturn overachieved budget by £0.076m and interest payable underspent the budget by £3.866m (of which £2.515m was General Fund) delivering a net underspent on the capital finance budget in 2021/22 of £3.942m.
- The Authority's weighted average return on its investments outperformed that of the treasury adviser's benchmark London Local Authority Group.
- During 2021/22 this Authority operated within the treasury limits and prudential indicators set out in the TMSS.

## REPORT DETAIL

### 1. Background

#### 1.1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the Authority should receive the following reports:

- An annual treasury strategy in advance of the year (Council 03/03/2021)
- A mid-year, (minimum), treasury update report (Audit Committee 22/02/2022)
- An annual review following the end of the year describing the activity compared to the strategy, (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

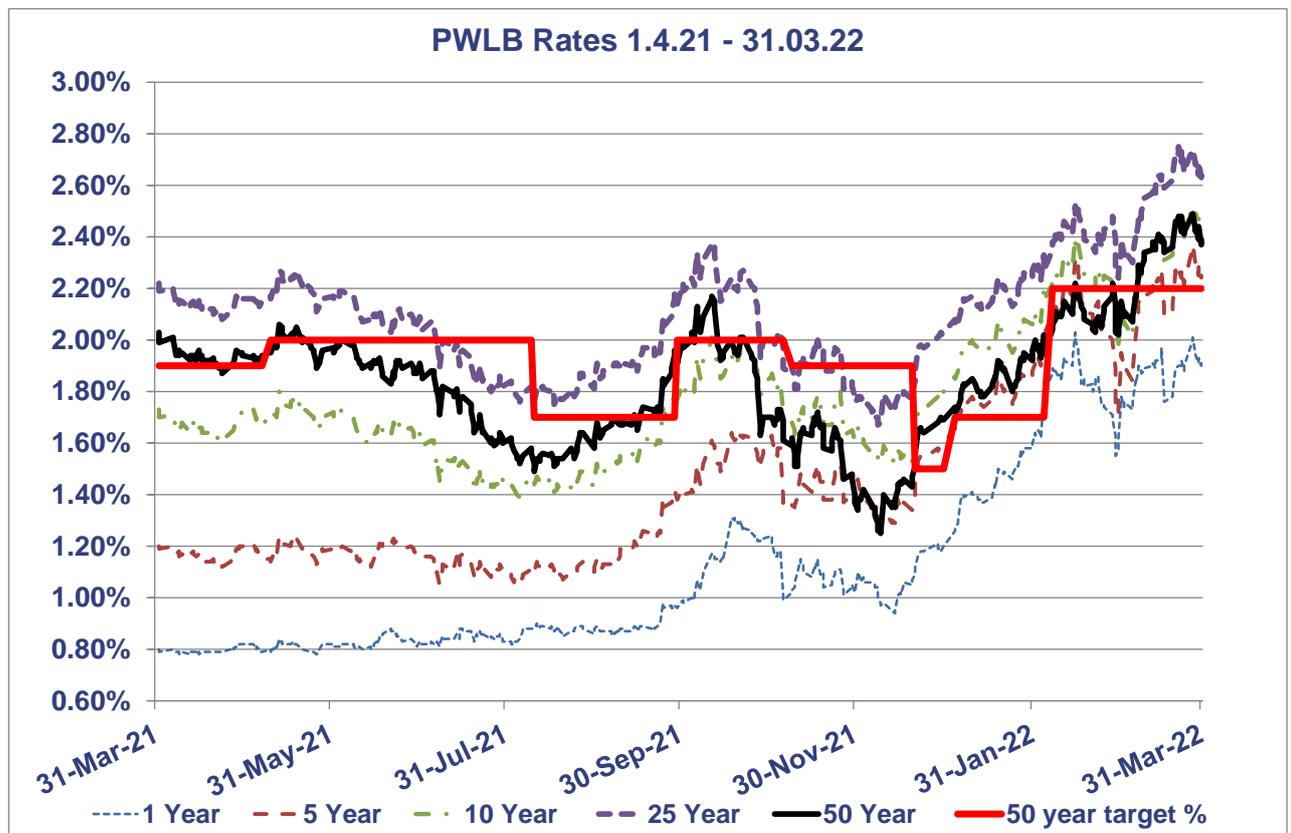
#### 1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) raised its bank rate from 0.10% to 0.25% at its meeting on 16/12/2021, 0.50% at its meeting of

4 February 2022 and then to 0.75% in March 2022. This was in response to rising CPI inflation which rose to 6.2% in March 2022 exceeding the BoE target 2%. The BoE MPC has sought to balance economic recovery with the need to tame rising inflation. CPI inflation was boosted by the energy crisis as western economies sought to reduce their dependency on Russian energy supplied following the invasion of Ukraine.

UK Gilt yields (which drive PWLB interest rates) had fallen back toward the back end of 2021 but these started trending up in the final quarter with 2 year gilt yields reaching their 11-year high and 10 year yields at 1.65%; close to their six year high. Gilt yields across all maturities have been dragged higher since by market concerns over rising and persistent high inflation. The BoE MPC stands by its forecast that CPI inflation will peak later this year and then start falling back to its target rate in the next 2-3 years and that is expected to drag gilt yields back down.

**Graph 1: PWLB Rates 2021/22**



## 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 31<sup>st</sup> March 2022**

	01.04.21		31.03.22	2021-22	2021-22	2021-22
	Balance outstanding	Movement	Balance outstanding	interest	Average Balance	Weighted Average Rate
	£m	£m	£m	£m	£m	%
<b>LONG-TERM BORROWING</b>						
PWLB	258.234	48.890	307.124	8.366	274.300	3.05
LOBO	7.000	0.000	7.000	0.252	7.000	3.60
Short-term borrowing	10.453	(9.600)	0.853	0.002	1.382	0.15
<b>Total borrowing</b>	<b>275.687</b>	<b>39.290</b>	<b>314.977</b>	<b>8.620</b>	<b>282.682</b>	<b>3.06</b>
<b>INVESTMENTS</b>						
Long-term investments	0.000	0.000	0.000	0.000	0.000	0.00
Short-term investments	110.000	(25.000)	85.000	0.342	95.253	0.35
Cash and cash equivalents	11.100	40.900	52.000	0.030	42.142	0.07
<b>Total investments</b>	<b>121.100</b>	<b>15.900</b>	<b>137.000</b>	<b>0.372</b>	<b>137.395</b>	<b>0.28</b>
<b>Net borrowing</b>	<b>154.587</b>	<b>23.390</b>	<b>177.977</b>	<b>8.248</b>	<b>145.287</b>	<b>2.78</b>

## 3. Borrowing strategy

3.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2020/22 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its 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: CFR and its financing 2021/22**

£m	01/4/21 Act	31/3/22 Revised Budget	31/3/22 Act
GF CFR	190	235	<b>189</b>
HRA CFR	212	349	<b>280</b>
<b>Total CFR</b>	<b>402</b>	<b>584</b>	<b>469</b>
Financed by:			
Internal cash	109	296	<b>154</b>
External long term Debt:			
HRA	220.2	220	<b>220</b>
GF	45.4	71	<b>95</b>

- 3.2 The short term strategy involved using the Authority's cash balances to fund the 2021/22 borrowing requirement in the capital programme. In July 2021 the S151 officer took a decision to increase long term borrowing by £121m to fund historic capital spend and replace temporary internal borrowing. There were two £25m 50 year Fixed PWLB trades executed: one each in November and December at 1.70% and 1.43% respectively. These trades were executed below the average 50Y PWLB Certainty rate 1.85% for the year and below the 10Y and 25Y rate as shown in table 3 below.

**Table 3: HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22**

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>01/04/2021</b>	0.80%	1.20%	1.73%	2.22%	2.03%
<b>31/03/2022</b>	1.91%	2.25%	2.43%	2.64%	2.39%
<b>Low</b>	0.78%	1.05%	1.39%	1.67%	1.25%
<b>Low date</b>	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
<b>High</b>	2.03%	2.37%	2.52%	2.75%	2.49%
<b>High date</b>	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
<b>Average</b>	1.13%	1.45%	1.78%	2.10%	1.85%
<b>Spread</b>	1.25%	1.32%	1.13%	1.08%	1.24%

- 3.3 The Authority's debt portfolio is fixed and mainly on long maturities (average of 26 years) and with inflation currently running higher than 2.89% the real value of that debt is set to fall.

- 3.4 The S151 officer balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2021/22 has meant the Authority's cash balances have remained higher than planned. This meant the focus was on deferring long term borrowing and this strategy resulted in significant savings in the 2021/22 capital finance budget detailed in table 4 below:

**Table 4: Capital finance outturn 2021/22**

Item	HRA £m	General Fund £m
<b>Interest payable</b>		
Budget – revised	7.756	4.766
Outturn	6.405	2.251
<b>Net Underspend £3.866m</b>	<b>1.351</b>	<b>2.515</b>
<b>Interest receivable</b>		
Budget – revised	0	(0.415)
Outturn*	0.105	(0.386)
<b>Net Overachievement £0.076m</b>	<b>0.105</b>	<b>(0.029)</b>

\* includes £0.121m from a non-treasury working capital loan to Authority owned subsidiary.

### 3.5 Debt Rescheduling

The possibility of debt rescheduling was regularly discussed with our treasury adviser. However opportunities have been almost non-existent in the current economic climate. The current PWLB rules on redemption are prohibitive and costly.

### 3.6 LOBO Loan

The Authority holds a £7m LOBO loan with Danske Bank that has the option to propose an increase in the interest rate at set dates, while the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The treasury adviser stated there is a low probability that the lender will propose an increased rate in the foreseeable future. Officers will continue to monitor and discuss with Danske Bank going forward

## 4. Investment strategy

- 4.1 As mentioned above the Authority drew down £50m PWLB debt, the impact of this combined with capital slippage of £115m meant that cash balances increased by £15.9m, ending the financial year at £137m as shown in Table 5 below. The carry cost of holding that part of the £50m PWLB debt (not required by the the

capital programme in 2022/23) and re-invested diminished as short term deposit rates approached the fixed rates on that debt.

- 4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2021/22 so they could be used to fund the capital programme whilst maintaining a liquidity buffer of between £30m-£50m as a contingency against any future credit crisis. The Authority has benefited from this strategy as it has been able to take advantage of the increase in short term interest rates. Also during the period the debt management office (DMO) was utilised for short term investment as their rates became more competitive.

**Table 5: Treasury investment activity 2021/22**

Investments	Balance at 31/03/21 £m	Movement £m	Balance at 31/03/22 £m	Interest Rate * %
Bank & Building Society ( fixed unsecured )	15.000	35.000	50.000	0.94
Bank & Building Society ( Call & Notice Accounts )	20.000	0.000	20.000	0.55
Local Authorities	75.000	(60.000)	15.000	0.35
Debt Management Office ( DMO )	0.000	52.000	52.000	0.50
<b>Total investments</b>	<b>110.000</b>	<b>27.000</b>	<b>137.000</b>	<b>0.65</b>

\* interest rates as at the 31<sup>st</sup> March 2022

- 4.3 **Appendix A** shows the breakdown of counterparties and investments for the Authority, showing the percentage each investment represents as a part of the total amount invested.

## 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 6 below:

**Table 6: Treasury investment performance 2020-21**

	Benchmark Return  3 month LIBOR (Average Quarterly Rate), replaced by SONIA look back and compounded from 1st Jan' 2022  %	Budgeted Rate of Return  %	Budgeted Interest (Full Year)  £m	Weighted Actual Rate of Return  %	Interest to end of Quarter  £m
Quarter 1	0.05	0.32	0.103	0.28	0.095
Quarter 2	0.05	0.32	0.103	0.23	0.076
Quarter 3	0.08	0.32	0.103	0.19	0.061
Quarter 4	0.38	0.32	0.103	0.37	0.139

5.2 From the 1st January 2022 LIBOR ceased to be supported and published by the banks being replaced by SONIA, see explanation in appendix C. Accordingly treasury will use SONIA going forward to benchmark activities and performance.

## 6. Regulatory Changes

6.1 CIPFA released the new editions of the Treasury Management (“TM”) Code and Prudential Code on the 20/12/21. Planned Member training will cover this new edition. The key changes are:

### Prudential Code

- The 2021 Code took immediate effect, except authorities can defer introducing revised reporting requirements until 2023/24 financial year (these include changes in capital strategy, prudential indicators and investment reporting). The **authority must not borrow to invest primarily for financial return, applied with immediate effect.** This authority chose to defer implementing revised reporting arrangements until 2023/24 in line with most other authorities to give time to implement the new arrangements.
- Objectives – capital plans and investment plans are affordable and proportionate; all borrowing/other long-term liabilities are within prudent and sustainable levels; risks associated with investment are proportionate to financial capacity and treasury management decisions are in accordance with good professional practice.

- Further strengthening on matters to be taken into account when setting and revising prudential indicators particularly decision making on capital investment, determining a capital strategy, prudence and affordability.
- ESG in Capital Strategy – broadened to make clear the strategy should address environmental sustainability in a manner which is consistent with the Authority’s own corporate policies on the issue.
- Commercial Property – makes clear historical asset base not impacted and that plans to divest should be part of an annual review.
- Definition of Investment – separate categories for Treasury Investment, Service Investment and Commercial Investment.
- Any decision to maintain long term Treasury Investment is left to each Authority/S151 to justify (assumption being that these are not borrowed for) and any longer term Treasury Investment to be linked to Business Model (e.g. a link to cash flow management or treasury risk management).
- CIPFA’s key concern is borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding not being prudent to make any investment or spending decision that will increase the CFR, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- Capital Financing Requirement – Gross Debt and the capital financing requirement still a key indicator – small changes to calculation of CFR to include Heritage Assets.

### **Treasury Management Code**

- Unlike the Prudential Code, there is no reference to effective date but this Authority will introduce reporting arrangements in 2023/24. The TM Code, require authorities to have regard to guidance under provisions of Local Government Act 2003.
- Treasury Management Practice (TMP) 1 Credit and Counterparty Risk Management – provides further clarification on ESG.
- Knowledge and Skills – TMP10 strengthened this requirement.
- TM Reporting and TM Code makes clear that reporting should set out Service and Commercial investment risks especially where this is supported by borrowing/leverage with proportionate level of any borrowing a decision for Authority/S151 – also emphasis placed “Local authorities must not borrow to invest for the primary purpose of financial return”.
- TM Code reporting frequency – a minimum annual reports before, mid-year and after the year-end.
- Liability Benchmark – CIPFA introduced the liability benchmark as a new Prudential Indicator, and state that *“the liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.”*

6.2 New PWLB Guidance: This blocks access to all PWLB borrowing in any year in which capital programme includes expenditure on an asset purely to obtain yield. This authority has no expenditure that falls into this category.

## **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.
- 7.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

### **IMPLICATIONS AND RISKS**

#### **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

### List of the Authority's deposit takers at 31/3/22

Counterparty Name	Amount	Percentage of total amount
DMADF (Debt Management Account Deposit Facility)	£52,000,000	37.96%
National Westminster Bank plc	£25,000,000	18.25%
Santander UK plc	£20,000,000	14.60%
Goldman Sachs International	£20,000,000	14.60%
Mid Suffolk District Council	£5,000,000	3.65%
London Borough of Southwark	£5,000,000	3.65%
Fife Council	£5,000,000	3.65%
Australia and New Zealand Banking Group Limited	£5,000,000	3.65%
<b>Total</b>	<b>£137,000,000</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

	2021/22 Limit %	2021/22 Actual %	2021/22 Limit %	2022/23 Limit %
Upper limit on fixed interest rate exposure	100	100	100	100
Upper limit on variable interest rate exposure	25	0	30	30

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.

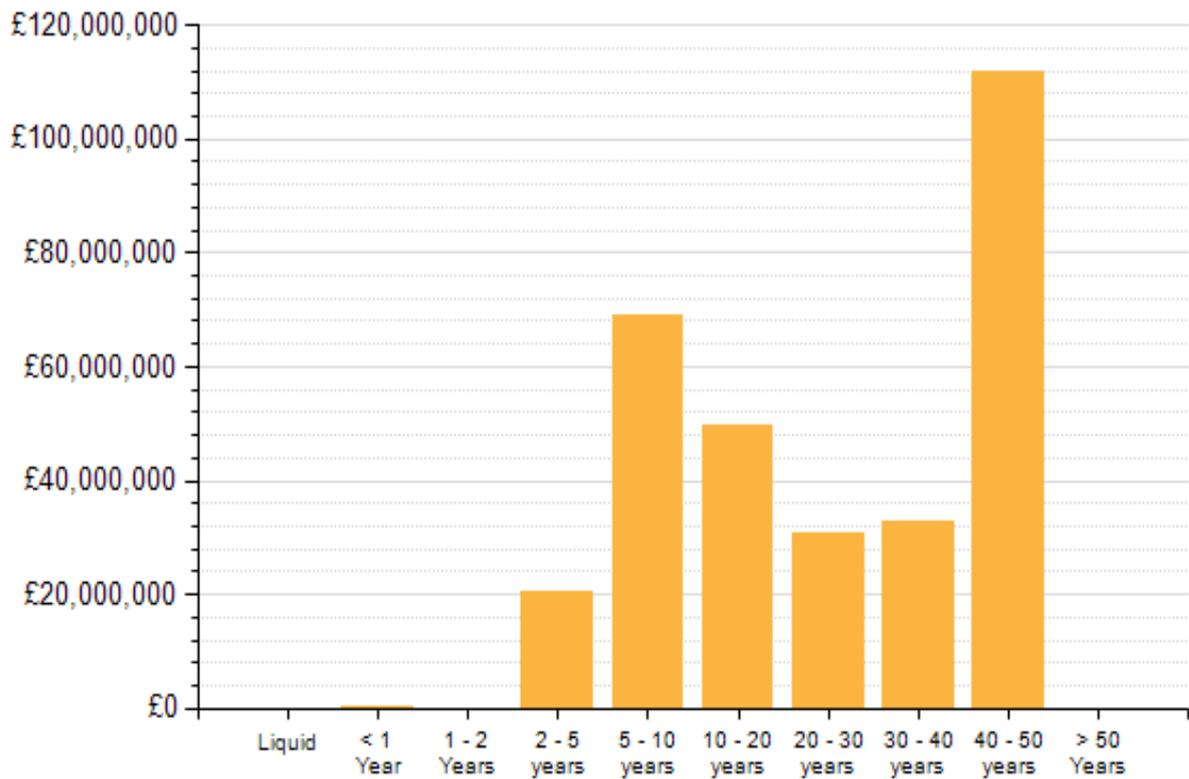
**1.2 Maturity Structure of Borrowing**

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	0.2
12 months and within 24 months	60	0	0
24 months and within 5 years	80	0	6.5
5 years and within 10 years	100	0	21.9
10 years and above	100	0	71.4

Loans Maturities by Type



Tenor Bucket	Fixed	rate
Liquid	£0	
< 1 Year	£100,000	0.17%
1 - 2 Years		
2 - 5 years	£20,553,506	3.09%
5 - 10 years	£69,036,518	3.26%
10 - 20 years	£49,574,400	3.34%
20 - 30 years	£30,753,158	3.42%
30 - 40 years	£32,959,855	5.03%
40 - 50 years	£112,000,000	1.66%
> 50 Years		
<b>Total</b>	<b>£314,977,437</b>	<b>2.89%</b>

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. The average maturing life of the long term debt is 26 years.

### 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 2021/22 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

	2021/22 Limit £m	2021/22 Actual £m	2022/23 Limit £m
Limit on principal invested beyond year end	120	-	120

### 1.4 Security Treasury Indicator

1.4.1 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

	<b>31.03.22 Actual</b>	<b>2021/22 Target</b>
Portfolio average credit rating	A+	A+

## 1.5 Gross Debt and the Capital Financing Requirement (CFR)

1.5.1 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. The estimates below are based on those set out in the approved TMSS 2022/23 – the capital programme is currently under review and are likely to change.

Table 6: Gross debt and the CFR at 31<sup>st</sup> March 2022

	<b>31.03.22 Actual £m</b>	<b>31.03.22 Estimate £m</b>	<b>31.03.23 Estimate £m</b>	<b>31.03.24 Estimate £m</b>
<b>Long-term External Debt</b>	<b>315</b>	<b>315</b>	<b>704</b>	<b>881</b>
General Fund	124	155	168	176
Housing HRA	280	349	468	546
Regeneration	65	82	168	259
<b>TOTAL CFR</b>	<b>469</b>	<b>584</b>	<b>804</b>	<b>981</b>
Internal Borrowing	154	293	100	100

1.5.2 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.

## 1.6 Operational Boundary for External Debt

1.6.1 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

<b>Operational Boundary</b>	<b>2021/22 £m</b>	<b>31.03.22 Actual</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Borrowing	465	315	865	1,130
Other long-term liabilities	10	0	10	10
<b>Total</b>	<b>588</b>	<b>315</b>	<b>875</b>	<b>1,140</b>

## 1.7 Authorised Limit for External Debt

- 1.7.1 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

<b>Authorised Limit</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Borrowing	804	1,053	1,153
Other long-term liabilities	10	10	10
<b>Total Debt</b>	<b>814</b>	<b>1,063</b>	<b>1,163</b>
Long Term Debt	315	315	315
<b>Headroom available (amount)</b>	<b>499</b>	<b>748</b>	<b>848</b>

**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.

**SONIA** sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

**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). CPI inflation measure excludes housing costs.

**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.