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FAREHAM
BOROUGH COUNCIL

AGENDA
AUDIT AND GOVERNANCE COMMITTEE

Date:	Monday, 22 November 2021
Time:	6.00 pm
Venue:	Collingwood Room - Civic Offices

Members:

Councillor	T Davies (Chairman)
Councillor	S D Martin (Vice-Chairman)
Councillors	P J Davies
	G Fazackarley
	Mrs T L Ellis
	N R Gregory
	G Kelly
Deputies:	S Dugan
	J S Forrest
	L Keeble

1. **Apologies**

2. **Minutes** (Pages 5 - 8)

   To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 27 September 2021.

3. **Chairman's Announcements**

4. **Declarations of Interest and Disclosures of Advice or Directions**

   To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. **Deputations**

   To receive any deputations of which notice has been lodged.

6. **Treasury Management Strategy and Indicators** (Pages 9 - 42)

   To consider a report by the Deputy Chief Executive Officer on the Treasury Management Strategy and Indicators.

7. **Risk Management Monitoring Reports** (Pages 43 - 94)

   To consider the latest Risk Management report from the Head of Finance and Audit.

8. **Prevention of Facilitation of Tax Evasion** (Pages 95 - 106)

   To consider a report from the Head of Finance and Audit on the prevention of facilitation of Tax Evasion.

9. **Internal Audit Progress Report** (Pages 107 - 122)

   To consider a report by the Head of Finance and Audit on the findings arising from the latest internal audit work to be finalised and progress being made on delivering the internal audit plan for 2021/22.

10. **Arrangements for Appointment of External Auditors** (Pages 123 - 134)

    To consider a report by the Deputy Chief Executive Officer on the arrangements for appointment of the Council's External Auditors.

11. **Review of Work Programme** (Pages 135 - 140)

    To consider a report by the Head of Finance and Audit on a review of the Committee's Work Programme for 2021/22.

P Grimwood

P GRIMWOOD
Chief Executive Officer

Civic Offices
www.fareham.gov.uk
11 November 2021

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democraticservices@fareham.gov.uk

FAREHAM
BOROUGH COUNCIL

Minutes of the Audit and Governance Committee

(to be confirmed at the next meeting)

Date: Monday, 27 September 2021

Venue: Council Chamber - Civic Offices

PRESENT:

Councillor T Davies (Chairman)

Councillors: P J Davies, Mrs T L Ellis, G Kelly and S Dugan (deputising for S D Martin)

Also Present:

1. APOLOGIES

Apologies of absence were received from Councillors S D Martin, N R Gregory and G Fazackarley.

2. MINUTES

RESOLVED that the Minutes from the Audit and Governance Committee held on the 12 July 2021 be agreed and signed as a correct record.

3. CHAIRMAN'S ANNOUNCEMENTS

No announcements were made by the Chairman.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at the meeting.

5. DEPUTATIONS

There were no deputations received at this meeting.

6. PARTNERSHIP GOVERNANCE REPORT

The Committee received a report by the Director of Leisure and Community providing members with an overview of the annual performance of each of the partnerships that Fareham Borough Council is part of and allowing Members to request further information or clarification over the governance arrangements in place.

RESOLVED that the Audit and Governance Committee: -

a) note the contents of the report; and

b) there were no requests for further information or clarification on any Significant Partnerships where members had concerns over the governance arrangements in place.

7. ANNUAL OMBUDSMAN REPORTS AND OVERVIEW OF COMPLAINTS AGAINST MEMBERS

The Committee considered a report by the Director of Leisure and Community providing details of the complaints made to the Council via the Local Government and Social Care Ombudsman, the Housing Ombudsman Service and any complaints in respect of breaches of the Code of Conduct for Members for the year up to 31 March 2021.

The Policy, Research and Engagement Manager presented the report to the Committee. Members commented on the Council’s excellent record with complaints handling, with no complaints being upheld during 2020/21.

RESOLVED that the Audit and Governance Committee note the contents of the report.

8. STATEMENT OF ACCOUNTS

The Committee considered a report from the Deputy Chief Executive Officer on the unaudited Statement of Accounts for 2020/21. The external audit of the accounts is due during October so the audited Statement of Accounts will be presented to the Audit and Governance Committee along with the Audit Results Report on 22 November 2021.

RESOLVED that the Audit and Governance Committee approves the unaudited Statement of Accounts for 2020/21, attached as Appendix A, for publication by 30 September 2021.

9. REVIEW AND PROCUREMENT AND CONTRACT PROCEDURE RULES

The Committee received a verbal update from the Head of Finance and Audit on the conclusions from the review of the Council's Procurement and Contract Procedure Rules that were introduced in October 2018. No changes of the rules were proposed at this time.

RESOLVED that the Audit and Governance Committee note the contents of the verbal update.

10. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report by the Head of Finance and Audit providing the assurances arising from the latest internal audit work and updating on the progress being made with delivering the audit plans. Mark Somerset, Audit Manager from the partnership with Portsmouth City Council, addressed the Committee to explain the challenges that the internal audit partners have faced in completing the internal audit work. He reassured the Committee that although there has been a delay, they feel positive that they will be able to catch up by the end of the year.

RESOLVED that the Audit and Governance Committee notes the progress and findings arising from Internal Audit work.

11. REVIEW OF WORK PROGRAMME AND TRAINING PLAN

The Committee received a report by the Monitoring Officer reviewing the Committees work programme for 2021/22.

RESOLVED that the Audit and Governance Committee approve the work programme for the rest of the municipal year, as shown in Appendix A to this report.

(The meeting started at 6.00 pm
and ended at 6.31 pm).

FAREHAM
BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: **22 November 2021**

Report of: **Deputy Chief Executive Officer**

Subject: **TREASURY MANAGEMENT STRATEGY AND INDICATORS**

SUMMARY

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, the Council is required to maintain a Treasury Management Strategy and provide updates on the implementation of that Strategy.

The Audit and Governance Committee is the responsible body to examine and assess the effectiveness of the Council's Treasury Management Policy and Strategy. In accordance with this role, this report sets out the mid-year review of treasury management activity up to 30 September 2021 which confirms compliance with the strategy approved by Full Council on 25 February 2021.

The Audit and Governance Committee's areas of responsibility for Treasury Management is to ensure effective scrutiny of the implementation of the Council`s Treasury Management Strategy and Policy.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

(a) reviews the contents of the report; and

(b) provide comments in terms of the effectiveness of the treasury management strategy.

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.

2. The Council's Treasury Management Strategy for 2021/22 was approved by Full Council on 25 February 2021 and can be found in Appendix A.

3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council, covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2021/22 was approved by Full Council on 25 February 2021.

5. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix B.

BORROWING ACTIVITY

6. At 30 September 2021, the Council held £56 million of loans, (no change since 31 March 2021). The Council expects to borrow externally up to an additional £5 million in 2021/22 to part fund the capital programme.

7. The Council's main objective when borrowing continues to be striking an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.

8. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Council considered it to be more cost effective in the near term to use internal resources and short-term loans. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.

9. Borrowing activity to 30 September 2021 was:

	Balance on 31 March 2021 £'000	**Balance on 30 Sept 2021 £'000**	**Average Rate**
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	13,000	13,000	0.40%
Portchester Crematorium	2,967	2,967	0.00%
Total Borrowing	**55,967**	**55,967**	

The Council holds investments from Portchester Crematorium Joint Committee which is treated as a temporary loan.

INVESTMENT ACTIVITY

10. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £16 and £25 million due to timing differences between income and expenditure.

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

12. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2021/22. The policy details the high quality and secure counterparty types the Council can invest with.

13. Given the continuing risk and low returns from short-term unsecured bank investments, the Council has diversified into more secure and higher yielding asset classes. £12 million that is available for longer-term investment was moved from bank and building society deposits into externally managed strategic pooled diversified income funds.

14. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

15. Details on investment activity to 30 September 2021 are summarised in the table below:

	Balance on 31 March 2021 £'000	Balance on 30 Sept 2021 £'000	Average Rate
Long-term Pooled Funds	11,475	11,773	3.23%
Banks and Building Societies	1,750	4,000	0.16%
Money Market Funds	5,400	6,000	0.01%
Total Investments	**18,625**	**21,773**	

COMMERCIAL PROPERTIES

16. The definition of investments in CIPFA's revised Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.

17. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 10 commercial investment properties as summarised below and is expected to generate rental income of £2.5 million during 2021/22.

Property Type	**Purchase Cost £'000**	**Value at 31 March 2021 £'000**
Retail	27,783	19,545
Commercial (Industrial)	10,100	10,665
Other (Healthcare)	1,890	2,130
Total	**39,773**	**32,340**

18. The reduction in value is principally due to exposure to the retail sector. This sector has had well publicised difficulties due to structural change and the COVID-19 Pandemic. The Council's exposure to High Street retail is limited and the focus is out of town, which is performing slightly better. The most recent evidence since the valuation date suggests that this sector is now trending more strongly. Key lease events on these properties have also had an effect, reflecting the cyclical nature of property. Value has also been affected by the reduction in the Average Weighted Unexpired Lease Term of this portfolio.

19. Throughout the past 18 months debts have been managed carefully. Agreements have been reached with all COVID-19 debtors and it is not foreseen that any rent will need to be written off.

20. The Council's total investment property portfolio is shown below. This is more balanced, albeit retail holdings do increase with more exposure to the High Street. This is due to longstanding strategic ownerships, rather than pure investments.

Property Type	**Value at 31 March 2021 £'000**
Retail	30,672
Commercial	19,675
Other	4,645
Office	4,000
Leisure	2,533
Total	**61,525**

BUDGETED INCOME AND OUTTURN

21. Our treasury advisor, Arlingclose, expects Bank Rate to rise in quarter 2 of 2022. They believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

22. Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlinglcose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

23. The Council's net interest budget for 2021/22 is £695,700 (£661,300 actual in 2020/21) and is currently on target to achieve this by the year end.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

24. The Council confirms compliance with its Treasury and Prudential Indicators for 2021/22, which was set on 25 February 2021 as part of the Council's Treasury Management Strategy.

25. Performance for the first half of the year is shown in Appendix C. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

Appendices: **A:** Treasury Management Strategy and Prudential Indicators 2021-22
B: Economic Commentary and Outlook by Arlingclose
C: Treasury and Prudential Indicators – half yearly performance

Background Papers: None

Reference Papers: Treasury Management Strategy and Prudential Indicators 2021-22, Council, 25 February 2021

Prudential Code for Capital Finance in Local Authorities (2017)

Treasury Management in the Public Services Code of Practice (2017)

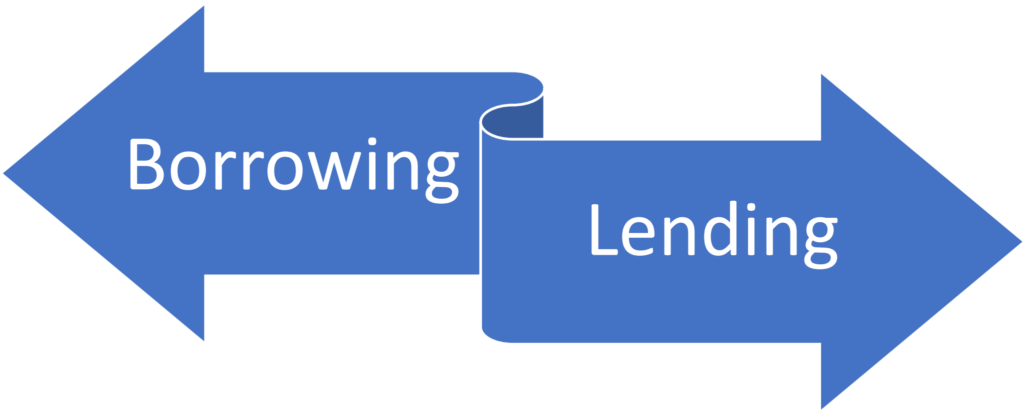
Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4849)

APPENDIX A

FAREHAM
BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2021/22



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

> *The management of the organisation's cash flows, its banking, money market and capital market transactions;*
>
> *the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.*

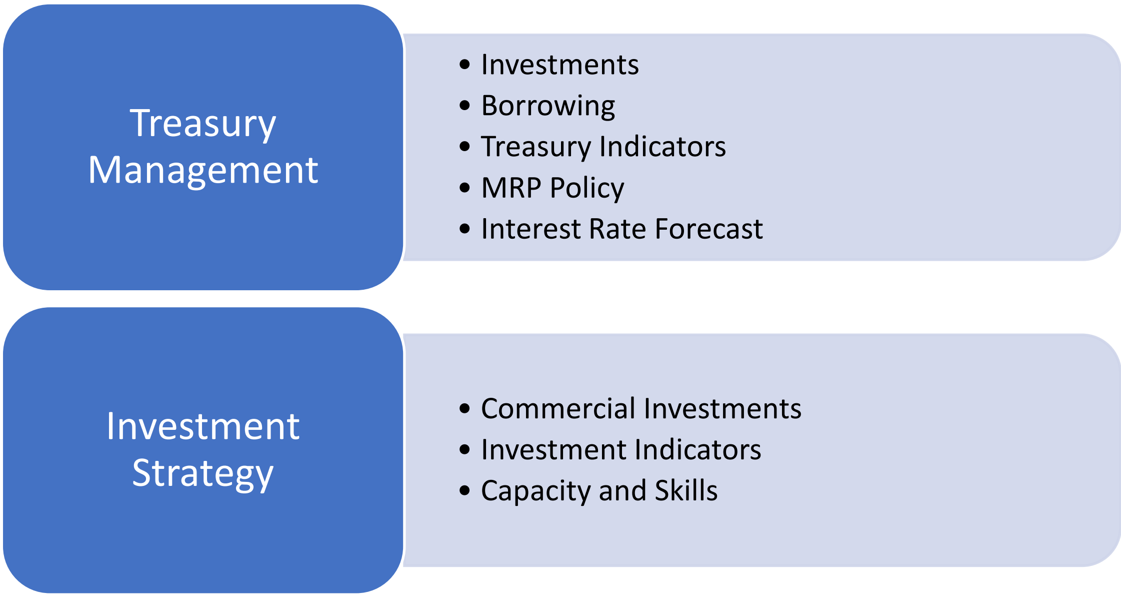
2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

   a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

   b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2021/22. It covers two main areas:



4. The content of the Strategies is designed to cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of polices, estimates and actuals. The three reports are:

6. The Executive Commmittee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT STRATEGY

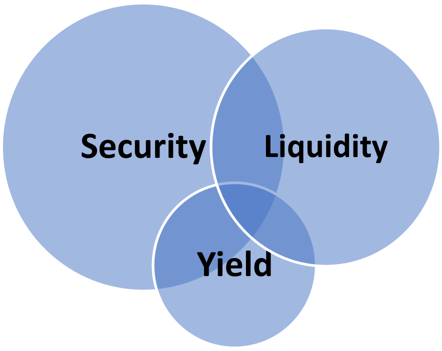
INVESTMENTS

Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £14 million and £44 million. The higher balances are due to COVID-19 related Government grants received in advance and are expected to reduce in the forthcoming year.

Treasury Investment Strategy

8. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.



9. The Council's objective when investing money is to strike an appropriate balance between **risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

10. The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to **negative interest rates** on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

11. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified **into more secure and/or higher yielding asset classes**. This is the case for the estimated £12 million that is available for longer-term investment. The Council's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification represents a continuation of the strategy adopted in 2018/19.

12. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's **business model** for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

13. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local authorities and other government entities	25 years	£4m	Unlimited
Secured investments*	25 years	£4m	Unlimited
Banks (unsecured)*	13 months	£2m	Unlimited
Building Societies (unsecured)*	13 months	£2m	£4m
Money market funds*	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£4m	£20m

14. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published **long-term credit rating is no lower than A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

15. For entities without published credit ratings, investments may be either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £2 million per counterparty as part of a diversified pool.

16. Summary of counterparty types:

a) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

b) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

c) **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

d) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

e) **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

17. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations) and real estate investment trusts, subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

Operational Bank Accounts

18. The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

19. Credit ratings are obtained and monitored by the Council's treasury advisers, who

will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

20. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

21. The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above credit rating criteria.

22. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

23. The following **internal measures** are also in place:

- Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
- Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

24. The Council's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2021. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£4 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

25. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

Liquidity Management

26. The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

27. The Council will spread its liquid cash over at least **four providers** (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

BORROWING

Current Portfolio Position

28. The Council's borrowing position at 31 March 2020, with forward projections are summarised below.

£'000	**2020/21 Revised**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt at 1 April	57,700	59,700	72,700	81,700	79,700
Expected change in debt	2,000	13,000	9,000	(2,000)	(2,000)
Gross Debt at 31 March	**59,700**	**72,700**	**81,700**	**79,700**	**77,700**

29. Debt at 31 March 2021 is projected to be lower than originally estimated last year due to the use of internal borrowing rather than borrowing externally to fund the

capital programme.

Borrowing Strategy

30. The Council's main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of those costs** over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

31. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

32. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.

33. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

34. Our treasury advisers will assist the Council with this **'cost of carry'** and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

35. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

36. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

37. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

38. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

Sources of Borrowing

39. The approved sources of long-term and short-term borrowing are:
    - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
    - Any institution approved for investments.
    - Any other bank or building society authorised to operate in the UK.
    - Any other UK public sector body.
    - UK public and private sector pension funds (expect the Hampshire County Council Pension Fund).
    - Capital market bond investors.
    - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

40. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
    - Leasing
    - Hire purchase
    - Private Finance Initiative
    - Sale and leaseback

41. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

42. **Short-Term and Variable Rate Loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

43. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

44. **Borrowing Limits:** These have been set as part of the Capital Strategy for 2021/22.

TREASURY MANAGEMENT INDICATORS

45. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.

46. *Treasury Management Indicator 1 - Principal sums invested for longer than a year:* The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the year end will be:

£M	2020/21 Revised	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Limit on principal invested beyond year end	15	15	15	15	15

47. *Treasury Management Indicator 2 - Maturity structure of borrowing:* This treasury indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity structure of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

48. 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.

49. *Treasury Management Indicator 3 - Housing Revenue Account (HRA) ratios:* As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2020/21 Revised	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	49,268
HRA revenues £'000	12,263	12,353	13,039	13,571	13,994
Number of HRA dwellings	2,401	2,422	2,422	2,414	2,406
Ratio of debt to revenues %	4.02:1	3.99:1	3.78:1	3.63:1	3.52:1
Debt per dwelling £	£20,518	£20,340	£20,340	£20,407	£20,475
Debt repayment fund £'000	£4,560	£5,700	£6,840	£7,980	£9,120

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

50. Where the Council finances capital expenditure by debt, it must **put aside resources to repay that debt** in later years. The amount charged to the revenue budget for the repayment of debt is known as **Minimum Revenue Provision (MRP)**.

51. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case by case basis depending on the circumstances and with a view to minimising the impact on the council taxpayer.

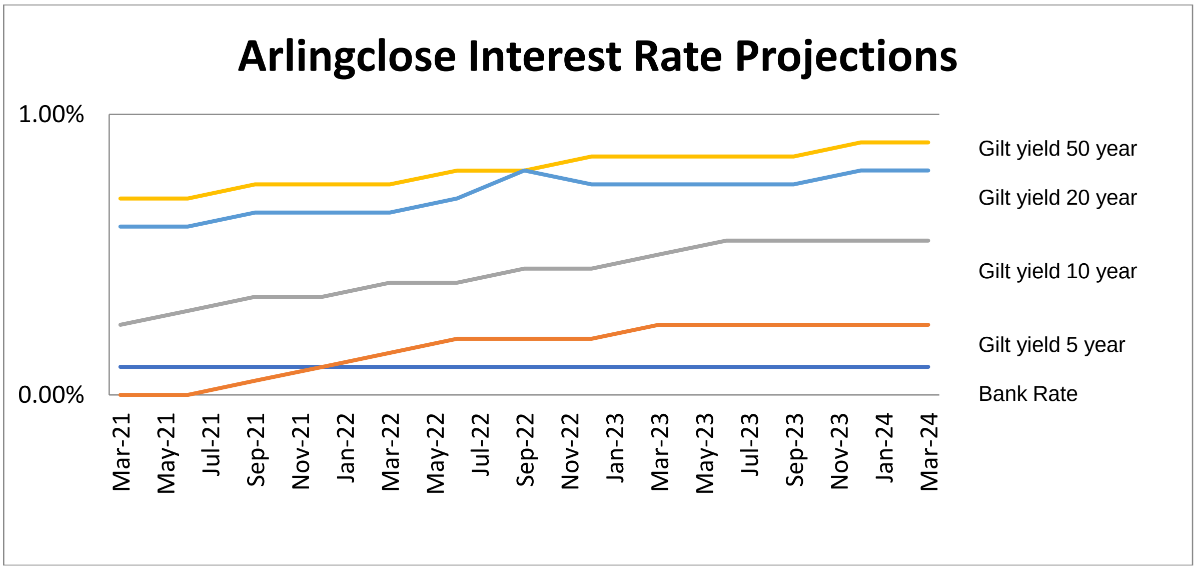
52. Where expenditure is on an asset which will be held on a short-term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.

53. No MRP will be charged in respect of assets held within the HRA, in accordance with MHCLG Guidance and capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23.

INTEREST RATE FORECAST

54. The Council's treasury management advisers assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1.

55. The following graph and commentary gives the Arlingclose's central view on interest rates.



56. The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the Bank of England (BoE) and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

57. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Other Items

58. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

59. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out the of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.

60. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.

61. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

62. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

63. The budget for interest received in 2021/22 for the General Fund is £818,700 and the HRA is £98,000 and the budget for debt interest paid in 2021/22 is £259,000 for the General Fund and £1,794,900 for the HRA. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

64. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

INVESTMENT STRATEGY

65. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

66. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the third of these categories.

67. The Council does not currently have any service investments.

COMMERCIAL INVESTMENTS

68. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.

69. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£35.3 million**, as summarised below, averaging a return of **6.8%**.

Property Type	Current Value £'000
Retail	22,195
Commercial	11,078
Other	2,050
Total	**35,323**

70. The Council's total Commercial property portfolio, shown below, is valued at **£64.3 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	36,077
Commercial	18,796
Other	4,403
Office	3,786
Leisure	1,202
Total	**64,264**

71. A fair value assessment of the Council's more recent commercial property purchases has been made within the past twelve months, and the underlying assets provide security for capital investment.

72. The Council assesses the risk of loss before entering into and whilst holding property investments. These risks are managed by ensuring:
    - funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
    - new purchases are only considered with existing tenants of "high quality" and sufficiently long tenancy term;

- appropriate checks are carried out to ascertain the tenant's reliability;
- other "due diligence" is undertaken to protect the Councils investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

Proportionality

73. The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2019/20 Actual	2020/21 Revised	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Gross service expenditure	50,017	46,353	45,281	46,251	46,603	46,836
Investment income	4,442	4,521	4,308	4,521	4,521	4,521
Proportion	**8.9%**	**9.8%**	**9.5%**	**9.8%**	**9.7%**	**9.7%**

INVESTMENT INDICATORS

74. The Council has set the following three investment indicators to assess the Council's total risk exposure as a result of its investment decisions.

75. *Investment Indicator 1 - Total risk exposure:* The first indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure £'000	2019/20 Actual	2020/21 Revised	2021/22 Estimate
Treasury Management Investments	16,300	12,000	12,000
Commercial Investments	64,068	64,068	64,068
Total	**80,368**	**76,068**	**76,068**

76. *Investment Indicator 2 - How investments are funded:* Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments Funded by Borrowing £'000	2019/20 Actual	2020/21 Revised	2021/22 Estimate
Treasury Management Investments	0	0	0
Commercial Investments	31,790	31,042	30,272
Total	**31,336**	**31,042**	**30,272**

77. *Investment Indicator 3 - Rate of return received:* This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments Net Rate of Return	**2019/20 Actual**	**2020/21 Revised**	**2021/22 Estimate**
Treasury Management Investments	3.0%	2.8%	3.5%
Commercial Investments	3.6%	2.2%	1.1%
Total	**3.6%**	**2.3%**	**1.6%**

CAPACITY AND SKILLS

Training

78. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

79. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council’s treasury management advisers and CIPFA.

80. Property services officers also regularly attend training courses, seminars and conferences provided RICS (Royal Institution of Chartered Surveyors) accredited/approved providers.

Use of Treasury Management Consultants

81. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

82. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

83. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

ANNEX 1

ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

Economic Background – January 2021

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -

0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022. The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit Outlook – January 2021

After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Underlying assumptions – December 2020

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.

- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.

- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.

- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.

- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.

- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast – December 2020

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.

- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

APPENDIX B

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – OCTOBER 2021

Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.
Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices. The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%. The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Credit review: Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

Over the period Fitch and Moody’s upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

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

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

APPENDIX C

2021/22 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources. The revised budget includes £1.6 million carried forward from 2020/21.

Capital Expenditure and Financing	Revised Estimate £'000	Actual to 30 Sept £'000
Health and Public Protection	40	0
Streetscene	0	29
Leisure and Community	6,656	2,381
Housing	637	73
Planning and Development	3,149	205
Policy and Resources	13,121	3,478
Total General Fund	**23,603**	**6,166**
HRA	**10,176**	**1,223**
Total Expenditure	**33,779**	**7,389**
Capital Receipts	2,588	18
Capital Grants/Contributions	4,656	358
Capital Reserves	7,973	1,405
Revenue	2,047	161
Internal Borrowing	16,515	5,447
Total Financing	**33,779**	**7,389**

Expenditure to 30 September is within the overall revised budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

	Estimate £'000	Actual to 30 Sept £'000
General Fund	67,898	52,303
HRA	53,036	51,823
Total CFR	**120,934**	**104,126**

The CFR is lower than projected due to lower internal borrowing for the first 6 months of the year.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	Estimate	Actual to 30 Sept
General Fund	7%	1%
HRA	13%	13%

4) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	Estimate	End of Year Forecast
HRA debt £'000	49,268	49,268
HRA revenues £'000	12,353	12,479
Number of HRA dwellings	2,422	2,403
Ratio of debt to revenues	3.99:1	3.95:1
Debt per dwelling £	£20,340	£20,501
Debt repayment fund £'000	£5,700	£5,700

TREASURY INDICATORS

5) Investments - Principal Sums Invested for Periods Longer than a year

ON TRACK

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

£M	Estimate	Actual
Limit on principal invested beyond year end	15	12

£12 million is placed with externally managed strategic pooled diversified income funds which are long-term investments. The remaining investments are currently placed for less than a year to allow cash to be available for schemes in the capital programme that require internal borrowing.

6) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The indicator shows that total debt is expected to remain below the CFR.

£'000	Estimate £'000	Actual to 30 Sept £'000
Debt at 1 April	72,700	55,967
Capital Financing Requirement (CFR)	120,934	104,126

7) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

£'000	Limit	Actual to 30 Sept
Operational Boundary	144,000	55,967
Authorised Limit	152,000	55,967

Total debt at 30 September was £56 million. During the first half of 2021/22 the Authorised Limit of £152 million was not breached at any time.

8) Maturity Structure of Borrowing

ON TRACK

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

Maturity structure of borrowing	Upper Limit %	Actual %
Loans maturing within 1 year	50	29
Loans maturing within 1 - 2 years	50	0
Loans maturing within 2 - 5 years	50	0
Loans maturing within 5 - 10 years	50	0
Loans maturing in over 10 years	100	71

The £40m HRA loans represent 71% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £13 million short-term loans. These represent 21% of loans maturing within 1 year.

9) Commercial Investments - Proportionality

ON TRACK

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2021/22 Budget	Actual to 30 Sept
Gross service expenditure	45,281	16,591
Investment income	4,308	2,718
Proportion	**9.5%**	**16.4%**

10) Total Risk Exposure

ON TRACK

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2020/21 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	12,000	21,733
Commercial Investments	64,068	61,525
Total	**76,068**	**83,258**

ON TRACK

11) How Investments are Funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	2020/21 Forecast £’000	Actual to 30 Sept £’000
Treasury Management Investments	0	0
Commercial Investments	30,272	30,272
Total	**30,272**	**30,272**

Agenda Item 7

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 November 2021**

Report of: **Head of Finance and Audit**

Subject: **Risk Management Monitoring Report**

SUMMARY

In March 2017, the Audit and Governance Committee approved a new Risk Management Policy based around a set of principles rather than a formal framework of registers. The policy requires evidence of risk management to be compiled every six months as proof that the policy is effective. This is the latest six-monthly report under the policy.

The Audit and Governance Committee's area of responsibility for Risk Management includes:

a) to monitor the effective development and operation of risk management in the Council.
b) to monitor progress in addressing risk-related issues reported to committee

RECOMMENDATION

It is recommended that the Audit and Governance Committee review the report as a source of evidence that the current Risk Management Policy is operating in practice.

INTRODUCTION

1. In March 2017, the Audit and Governance Committee approved a new Risk Management Policy (See Appendix E) based around a set of principles rather than a formal framework of registers. Under the process, discussions are held with managers to gather evidence that the new policy is being implemented. In particular, the policy would be considered to be effective if managers are able to cite examples of:

   (a) What their top risks are and any new or changes in risks and opportunities that have occurred in the year

   (b) Actions that have been taken in the year to mitigate risks

   (c) Incidents that have occurred and actions taken to manage the incident and prevent a repeat

   (d) Risks and solutions shared with other services in the Council or discussed with Council experts in that subject.

2. The last progress report was compiled in March 2020. Since then this process has been on-hold while managers concentrated on managing the risks and impacts associated with the Covid-19 pandemic. This report summarises the evidence gathered from the discussions which recommenced during September and October 2021.

MANAGERS COVERED BY THIS REPORT

3. Discussions are held in two rounds of interviews, so that each manager is interviewed once in the annual cycle. The Managers covered in the 2 sets of interviews this year are listed in the table below, which highlights those services covered by this report and therefore which risk topics feature.

Managers Interviewed for THIS report	Managers to be Interviewed for the next report
Head of Building Control (JS)	Head of Environmental Health (IR)
Head of Democratic Services (LU)	Head of Housing and Benefits (CN)
Head of Development Management (LS)	Head of Planning Strategy & Economic Development (GW)
Head of Finance and Audit (EH)	Daedalus Strategic Lead (SW)
Head of Housing Delivery (RL) - Housing Strategy services	
Head of Street Scene (MB)	Housing Property
Welborne Strategic Lead (SW)	Head of Housing Delivery (RL)
Leisure and Community Manager (EW)	Property Manager (Housing) (SB)
Property Manager (IC)	
	Coastal Partnership Managers
Corporate Services Managers	Head of Coastal Partnership (LC)
Web and Social Media Manager (MP)	Business Development Manager (JR)
PR and Marketing Manager (JL)	
Customer Service Manager (AR)	Legal Partnership Managers
	Head of Democratic Services (LU)
Human Resources Officers	Service Director (Solicitor to the Council) (RI)

HR Business Partner (TH) HR Business Partner (AG)	Service Lead (Legal Partnership) (SR) <u>ICT Managers</u> Technical Infrastructure Manager (AS) Development and Systems Support Manager (KW) <u>Estates Managers/Officers</u> Head of Asset Management (SF) Estates Surveyor (AD) <u>Corporate Services Managers</u> Policy, Research and Engagement Manager (RB)

STRUCTURE OF THE EVIDENCE GATHERED

4. Detailed notes were taken of each discussion. The topics of the discussion are listed in Appendix D. Examples were then taken from the discussions (limited to 2 or 3) to give as evidence of risk management activity in practice in line with the Council Policy. These are summarised in the appendices using 3 evidence themes of:

    (a) Appendix A - New actions taken *anticipating* risks or opportunities

    (b) Appendix B - New actions taken *reacting* to risks or incidents

    (c) Appendix C - Risks where action is *still needed*

5. Some changes were made to the structure of the evidence write up to reduce the time involved in pulling the report together. However, this wasn't altogether successful in achieving its aim so in the next report we will be piloting a new approach to compiling the evidence in which only 5 risks are listed from each discussion.

6. Greater emphasis will be placed on:

    a) Providing assurance that the managers were aware of their risks and carrying out effective risk management.

    b) Providing assurance that there were no risks which did not have appropriate mitigation plans in place.

APPENDICES

Appendix A: Examples of New Actions Taken ANTICIPATING Risks or Opportunities

Appendix B: Examples of Actions Taken REACTING to Risks or Incidents

Appendix C: Risks noted where further actions are still needed

Appendix D: Detailed List of Risks and Actions covered in the Manager Discussions

Appendix E: FBC Risk Management Policy

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 13 March 2017 on the Revised Risk Management Policy

CIPFA / SOLACE - Delivering Good Governance in Local Government Framework April 2016 Edition

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

Appendix A – Examples of new actions taken ANTICIPATING risks or opportunities

Corporate Covid-19 Response - Assisting Vulnerable Groups

There was the risk of vulnerable residents not getting the support they need for everyday tasks during the pandemic, which could lead to further, more serious issues with the resident or other services (such as the NHS) having to use resources to support the resident.

Service Area(s) leading on managing the risk:

Leisure and Community

For further information contact:

Leisure and Community Manager (EW)

Background to the Risk

Due to the Global Covid-19 pandemic and a national lockdown it became more important than ever that we supported the most vulnerable members of the community, who were required to stay at home. The Borough of Fareham already had stable external agencies that could be used to help mitigate this risk.

FBC supported 4 external agencies (Acts of Kindness, Waypoint Church, One Community and Citizens Advice Bureau) to set up food banks and other support services such as picking up prescriptions, help with specific food shopping, dog walking and as a friendly person to talk to.

Key actions taken to address the risk included:

- Provided financial support to the external agencies
- Alongside Hampshire County Council, FBC led on a piece of work to refer residents that were either known to authorities as being vulnerable, or those who contacted the HCC Coronavirus helpline, to the appropriate organisations
- Monitored the welfare of the agencies to make sure they were adequately resourced and not being overwhelmed with demand
- Promoted key messages locally to residents detailing what support was available and how this could be accessed
- Promoted how other residents could provide support such as volunteering or donating to foodbanks
- Allowed Acts of Kindness to use a Hangar at Daedalus to store foodbank items

Key actions still to do include:

- Ongoing support to external agencies, increased demand being forecast when the furlough scheme ends and if there is another national / local lockdown.

Corporate Covid-19 Response - Keeping Vulnerable Workforce safe

There was the risk of Covid 19 affecting the Clinically Extremely Vulnerable (CEV) employees severely, or CEV members in their household. This would impact their health and wellbeing both short term and long term as we discover more ways the virus manifests. Staff our are biggest asset and we needed to safeguard the workforce. This group therefore needed to be actively identified and managed throughout the pandemic.

Service Area(s) leading on managing the risk:

Human Resources (HR)

For further information contact:

HR Business Partner (AG)

Background to the Risk

The Government announced on 16 March 2020, staff should be working at home wherever possible and shortly afterwards the UK went into lockdown. The CEV employees were encouraged to leave the building first, but there was much work to do to discover who was CEV and also who were vulnerable (including members of the household) and put in place suitable adaptations to keep them safe and well. Some vulnerabilities changed during the year and these needed to be ascertained.

Key actions taken to address the risk included:

- Data sources utilised to establish which staff met the vulnerable classification (including employees flagging they had received a CEV notification from the NHS).
- Risk assessment caried out for each individual to make sure they were appropriately protected. This included working with Occupational Health depending on their condition and where they worked (e.g. lone worker based in a vehicle)
- Initiatives to manage Wellbeing issues: This includes various things under the umbrella of staff wellbeing such as updates on SID, advising staff about the Counselling Service, dealing with staff who've had concerns or worries on a case-by-case basis and doing what is best for them individually.
- Weekly updates on staff status collected from each Head of Service.
- Arranging COVID tests for FBC staff with symptoms following temporary testing facility being set up.
- More detailed risk assessments for staff who wanted to come back with safety measures in place, allowing staff to work in a safe way
- Accessing spare vaccinations to offer to Non CEV staff earlier than being offered by the NHS, meant that all staff would be double vaccinated and offer protection to the CEV staff.
- Managing the security of data held on the HR files
- Capturing vulnerabilities of new starters

Key actions still to do include:

- Assess the changes in risk arising from the new way of working strategy.
- Continue to review the risk assessments if booster vaccines are delayed, new virulent strains arise, or any local restrictions on the NHS occur.

Corporate Covid-19 Response – Keeping all employees safe when working

Managing the risk of Covid infection, and the perception of safety of working arrangements, during the pandemic.

Service Area(s) leading on managing the risk:

Housing Delivery

For further information contact:

Head of Housing Delivery (RL)

Background to the Risk

The Covid-19 response team was set up to corporately address the safety of Councillors, employees, and residents and the wider public in line with government guidance whilst maintaining public services.

At the point of the national lock down employees were asked to work from home where possible, but naturally this is challenging for a local authority where certain roles and functions cannot be fulfilled in this way and going into work had to continue under the tightest of national restrictions. For others, a return to the office was managed over a period of months, implementing a rota system for maintaining social distancing.

The emphasis on the approach was to keep all safe from infection and keep them feeling safe from the risk of infection, using proportionate measures. Feedback from employees and users of the building was that they felt safe. Covid infections arising during this period were predominantly tracked to outside sources.

Key actions taken to address the risk included:

- Project lead worked closely with CXMT, Human Resources, Environmental Health, and all managers to interpret guidance about social distancing measures that was often issued or updated at short notice
- Compiled 6-part Safety Guidance including procedures for working at the Civic Offices, depot and out and about.
- Introduced measures such as bubbles and refuse support vehicles for the depot and other areas such as sheltered housing where a large proportion of the workforce could only fulfil their duties from the workplace.
- Enabled immediate Civic office working for certain roles and for individuals to help with wellbeing
- Worked with managers and facilities team to develop desk plans to enable the phased return to work

Key Actions still to do include:

- Maintaining trust and the team ethos and all as one approach to the new ways of working as the rota system is eased and other flexible working arrangements come into place with managers approval.
- Managing recruitment expectations

Corporate Covid-19 Response - Financial Resilience of the Organisation

Due to the financial implications of Covid on the income streams and expenditure of the authority, there was a risk that the Council couldn’t sustain the current levels of service delivery or would exhaust the financial reserves available trying to do so.

Service Area(s) leading on managing the risk:

Finance and Audit

For further information contact:

Head of Finance and Audit (EH)

Background to the Risk

The impacts of the Covid pandemic on the organisation’s finances were:

1) increase in expenditure (e.g. hiring extra vehicles to maintain social distancing, purchasing PPE, supporting critical suppliers) and

2) loss on income (e.g. fees and charges such as car park income, trade waste income and a reduction in the number of planning applications).

To fully understand the impact that was occurring an emergency budget was prepared which forecast the need to draw £2.6m from reserves in the first year and similar amounts in the following years depleting the Council’s reserves.

Due to the actions taken, and government support provided, reserves did not need to be used in the first year, mainly due to initial conservative estimates on government grants we would receive. Going forward we are still anticipating the need to draw down from reserves in 2021/22 and beyond.

Key Actions taken to address the risk included:

- Weekly monitoring of key finance headlines
- Development of a Financial Recovery Plan
- Full engagement with the Government grants programme to maximise funding opportunities
- Introduced Finance Business Partner’s report of monthly good news / bad news to S151 Officer
- Living below our means strategy

Key actions still to do include:

- Maintenance of 5-year Medium term Finance Strategy Projections to monitor the on-going situation
- Revised costings of unknowns not yet fully built into the projections e.g. waste strategy
- Continued development of opportunity plan of work to close the underlying £0.5m funding gap
- Increased scrutiny and monitoring of the projects that are helping close the funding gap such as the Faraday Park business units, leisure and arts management fees, green waste collection and coastal parking charges

Corporate Covid-19 Response - Financial Support for Critical Supplier

There was a risk that without supporting a critical supplier financially they would be unable to continue to run the Council's two Leisure Centres. This would mean loss of management fee income in the future for FBC, and additional costs of having to run the service ourselves.

Service Area(s) leading on managing the risk:

Leisure and Community

For further information contact:

Leisure and Community Manager (EW)

Background to the Risk

In June 2020 discussions began between the operator and FBC regarding a financial support package to enable them to continue to run Fareham and Holly Hill Leisure Centres. Without on-going financial support from FBC, the operator would have not been in the financial position to: 1) afford the upkeep of both centres during period of closures, and 2) reopen both leisure centres when the Government permitted.

This support package is in place until one of three conditions have been met: the leisure centres have been open without Covid restrictions for 6 months, 3 months after the completion of the build or they are in a surplus position for 3 consecutive months. The first trigger point is likely to be met in mid Jan 2022.

The Government Procurement Policy Note – Supplier relief due to Covid-19 (PPN 02/20) set out information and guidance for public bodies on the payment of their suppliers to ensure service continuity during and after the pandemic.

Key Actions taken to address the risk included:

- Agreed a financial package of support between FBC and the operator supported by a documented agreement.
- Monthly financial monitoring of the support need and the nature of the spend
- Monthly contract meetings
- FBC approval for spend above £5k or spend that was not 'business as usual'

Unavailability of Staff to deliver the priority services

Due to the number of employees meeting the vulnerable criteria and the numbers needing to self-isolate, there was a risk that Street Scene was unable to deliver all their services effectively to the same timetable. This was made more difficult by an increased in demand for some services.

Service Area(s) leading on managing the risk**:**

Street Scene

For further information contact:

Head of Street Scene (MB)

Background to the Risk

When the Covid restrictions were announced by Central Government in March 2020 immediate decisions had to be made in relation to the staffing and ability to deliver services, particularly refuse and recycling collections. The service had approximately 1/3 of the workforce, who were mainly front-line workers, who were categorised as vulnerable and needed to self-isolate in the beginning.

As guidance changed the number of members of staff on the vulnerable list reduced thereby lessening the difficulty of delivering the services. However, there was another peak of staff unavailability later as a result of positive Covid tests and the track and trace process and self-isolation instructions hitting the team.

Demand for refuse and recycling services increased, especially during the lockdown periods and with the continuing changing of working practices by the public e.g. working from home. This has resulted in an increased volume of household waste and recycling material which has placed extra demand on the collection crews. The closure of the household recycling centres also resulted in an increase in waste hitting the household bins. Bins in open spaces were overflowing due to more use by the public, as were the glass banks as people took to more drinking at home (as the pubs were closed) and having a sort out at home.

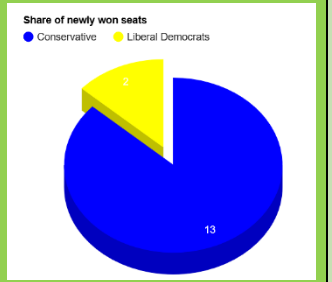
Key actions taken to address the risk included:

- Temporary suspension of the collection of garden waste for a period of 3-4 weeks in the first lockdown and for 2 days later in the year.
- Stopped non-essential services including grass cutting, cutting back of overhanging vegetation, maintenance of sports pitches and play areas, as they were closed, and the servicing of public toilets which were closed during the initial lockdown.
- Good communication channels introduced between Street Scene and HR to ensure all staffing matters were addressed and the appropriate Covid guidance was introduced for the safety and wellbeing of staff.
- Daily evening discussions between supervisors and HR to ensure prompt notification of staff absence.
- Staff informed of social distancing requirements and action to take if they tested positive for Covid.
- Office staff worked on a rota basis to minimise the number of people in at any one time.
- Staff working over their allotted hours to help get rounds finished.
- Increased monitoring of hours being worked by individuals to ensure they did not exceed their maximum time allowed (e.g. drivers).
- Staff seconded from other services to ensure refuse and recycling rounds were completed.
- Weekend working introduced to empty public space bins.

Key actions still to do include:

- Continue to follow and react to any changes in Covid guidelines and peaks in staff absence

Preventing the Spread of Infection in the May 2021 Election



There was a risk that running the election without meticulous planning and putting in place a high number of mitigating actions could have caused a spread of the Covid infection within the Borough.

Service Area(s) leading on managing the risk**:**

Democratic Services

Corporate Services

For further information contact:

Head of Democratic Services (LU)

Customer Services Manager (AR)

Background to the Risk

The decision was made by Parliament in March 2020 to postpone the upcoming Police and Crime Commissioner and Local Elections due to take place in May 2020 and a new date of May 2021 was proposed. However, it became clear towards to end of 2020 that if the Election was to go ahead in May 2021 a high number of mitigating actions would need to be put in place to manage the risk of the Covid-19 virus being spread amongst the voters, the poll station staff and the count staff.

The election was further complicated by the requirement to cover three ballots in one day all using different voting systems.

Key actions taken to address the risk included:

- Planning for the Election started in November, three months earlier than usual
- Risk assessments carried out of all polling station venues, ensuring social distancing could be maintained
- Measures implemented at polling stations to prevent infection including keeping doors open, one-way systems and queue control
- One ballot box was used for all three ballot papers – reducing voter queries and time in polling stations
- Screens and PPE (including mandatory masks) purchased for infection control at the Polling Stations and Ferneham Hall as the venue for the Count
- Reorganisation of count teams (fewer staff in bigger teams) to allow greater spacing between them
- Compulsory lateral flow tests for election and count staff
- Staff worked in bubbles for postal vote opening to reduce risks
- Training prepared and delivered virtually, with the aid of pre-recorded training videos

Key actions still to do include:

- Ensure the accounts are finalised and submitted to the Election Claims Unit by the required deadlines

Planning Committee during Covid Restrictions

There was the risk of no Planning Committees taking place, which would have meant either giving planning officers more delegated powers; or the decisions on more controversial/major applications would have been delayed for an unknown length of time.

There was a risk that deputations would have not been heard, or would be given haphazardly, affecting the public's right to voice their opinion on planning applications and negatively impacting their confidence in the Council and in the committee's decisions.

Service Area(s) leading on managing the risk:

Development Management

Democratic Services

For further information contact:

Head of Development Management (LS)

Head of Democratic Services (LU)

Background to the Risk

The Planning Committee is a monthly meeting of members to consider and determine planning matters. This includes the granting or rejecting of planning permission for any presented applications.

Pre-Covid, the Planning Committee took place within the Civic Offices and could be attended freely by the public. It was also possible for members of the public to make deputations on specific applications if they had requested to do so in advance. When restrictions were placed on the country, to negate the effects of Covid -19, these meetings were initially delayed until the Government published amendments to the relevant legislation to allow all such meetings to now take place virtually.

Since then, all Planning Committees took place virtually and were livestreamed to allow for public viewing.

Key actions taken to address the risk included:

- Legislation was changed by the Government which allowed the Committee to take place virtually. IT, Democratic Services, and Development Management worked collaboratively to achieve this, including providing IT equipment and support to members, providing emailed scripts to cover how the meeting would operate and giving/attending training/instructions on the expected conduct of members and staff in meetings being broadcast live.
- New methods of giving a deputation were also implemented (e.g. pre-recorded audio files or written submission read on their behalf by a member of Democratic Services) to avoid disturbances or technical issues that could have occurred if the public were able to actively take part in the virtual meeting.
- The cap on time for deputations was temporarily removed, as it was acknowledged they would have trouble meeting up to nominate a spokesperson when there were a number of deputations for the same application.

New chargeable service for Garden Waste **There are a number of risks associated with the introduction of the new chargeable service for green waste collection. One of the biggest risks, is not being ready to fully deliver the scheme on the due date.**	Service Area(s) leading on managing the risk: **Street Scene** For further information contact: Head of Street Scene (MB)

Background to the Risk

A new chargeable service for green waste collection is due to take effect from February 2022. Residents in the Borough requiring the garden waste collection service will be charged an annual subscription and a one-off charge for a bin, with a choice of two sizes. Residents have been able to sign up online or by telephoning the Council since 1st September 2021. Anyone signing up to the new scheme before the 31st October 2021 is being offered an 'early bird discount' of 50% of the charge for the bin.

Risk associated with this scheme include:

- Not enough vehicles to cope with demand
- Bins are not delivered on time for the due date for the start of the service paid (which have been paid for upfront)
- Over-preparation for service demand that does not materialise, resulting in abortive costs
- Demand does not meet required income generation targets
- Unable to cope with peaks of demand for delivery of new bins after go-live date
- Unable to deal with spike in phone call enquiries
- Public not aware in the change in the service (including having left over green plastic sacks)
- Managing complaints received about the introduction of the charge and the perceived cost of the publicity campaign
- Software failures including poor management of subscription starters and stoppers
- Disposal arrangements stop being available

Demand for the new service through the early bird offer has been high resulting and the service needs to make sure there are enough bins available for the first wave of orders placed. The bins awaiting delivery are stored securely and will be distributed by a private company up until the end of January 2022. From February 2022 onwards they will be delivered by Street Scene. As this is an unknown delivery quantity for the Council, in the future, there is a risk of an additional cost if extra resources need to be employed.

Some collection vehicles are due to be replaced and the service is aware that there is a 10-month lead time for the purchase of a new vehicle.

Key actions taken to address the risk included:

- Publicity campaign to maximise the success in the take up of the scheme including early bird discount
- Staff seconded to help with the initial high volume of telephone enquiries and sign up to the garden waste collection service
- Alternative suppliers sourced for the purchase of additional bins to satisfy demand and meet the deadline for the delivery of bins
- Delivery of all bins ordered has been arranged to be in place by the start of the scheme in February 2022

- Purchase of second-hand collection vehicles to tie the service over and build in resilience
- The waste collection vehicles will be fitted with in cab software with GPS identifying the residents who have subscribed to receive the garden waste collection service. This will also inform the collection crews of any new subscribers or residents who have left the scheme.

Key actions still to do include:

- Future administration of the scheme to ensure that collection crews are kept up to date with any changes in the subscriptions to the scheme
- Purchase of replacement waste collection vehicles to improve the resilience of the fleet

Recruitment and Retention in the Building Control Service

There is a risk that the Building Control Partnership may not have the resources and expertise available to successfully run the service if they are not able to retain or replace professional employees.

Service Area(s) leading on managing the risk:

Building Control

For further information contact:

Head of Building Control Partnership (JS)

Background to the Risk

Building control currently has two vacant principal surveyor posts and is always conscious of the need to retain current key employees and succession plan for the future. Recruitment to these vacant posts has been unsuccessful on two occasions. The package provided is considered competitive, however recruitment specialists have suggested the market is stagnant due to future uncertainties in the economy making professionals less likely to risk changing jobs.

The partnership also has an aging workforce within its administration team with the potential for three members of the team to retire. This does not pose an immediate risk unless all employees retire in the same period. The package provided is considered excellent in comparison to the job market. However, due to the technical aspect of the role, it may be more difficult to recruit someone with the existing technical skills required.

Key actions taken to address the risk have included:

To address the recruitment of the surveyors, the follow actions have been taken:

- Two trainee building control surveyors have been recruited to become professional within 5 years
- The Apprenticeship levy will be used to help fund the necessary training
- Retired employee being employed on a casual basis to help train and pass on vast experience to the trainees
- Interim use of agency workers to bridge any gaps
- To address the risk within the admin team, the follow actions have been taken: Building Control have engaged with the HCC quick start process - this is a pilot process to employ an individual from the unemployed market for 6 months. Hampshire County Council will provide mentoring as well as pay their salary. FBC invest time in the management, development and training of the individual. After the 6-month process, the Building Control Partnership could choose to employ the individual as an apprentice and the individual would be provided with the necessary training and qualifications to become a Technical Administrator.

Appendix B – Examples of actions taken REACTING to risks or incidents

Covid Impact on Housing Development Sites in Progress

The national lockdown arising from the Covid-19 pandemic affected the construction of sites in progress and the ability to deliver on time with no financial loss.

Service Area(s) leading on managing the risk:

Housing Delivery

For further information contact:

Head of Housing Delivery (RL)

Background to the Risk

Construction works were underway at Oak Tree Close and Rose Court when the Covid-19 pandemic first began and were completely shut down at the start of the first national lockdown until the Government allowed contractors back on site. This caused some delay to the completion of the schemes, both in terms of actual works on site and materials supply, which were also affected by Covid in this country and overseas. Subsequently other areas impacted the completion of developments, such as utility connections which were on an emergency callout basis only for a longer period of time. There were also some outbreaks of the infection which affected the availability of workers on the site.

As construction industry restrictions were eased, rules around moving home took longer to be relaxed which had implications for those residents taking up the new dwellings unless it was an emergency placement.

Delays in the projects could cause the cost of the project to increase, and a loss in rents obtained for the property.

Key actions taken to address the risk included:

- Kept up to date with government guidance as restrictions around construction were eased and work re-commenced on site.
- Ensuring contractors dealt with outbreaks of Covid on site and that social distance measures were in place.
- Proactively engaging with and contacting relevant utility companies to find a solution to the connection issue
- Managing the working relationship with the contractors to ensure a positive outcome for the development of the scheme, including the management of claims so that there were minimal additional costs for the projects.

HCC impact on ability to deliver Housing Development Sites

There is an ongoing risk of project delays and increased costs arising from start on site delays for schemes where contractor appointments have been made but Hampshire County Council have not completed the Section 278 Highway Agreements. There is also the reputational risk of not meeting expectations in delivering these sites.

Service Area(s) leading on managing the risk:

Housing Delivery

For further information contact:

Head of Housing Delivery (RL)

Background to the Risk

The award of contracts for Station Road and Stubbington Lane development sites has been completed and local Small and Medium Sized Enterprises (SME's) have been appointed as the contractors. The Design and Build contracts were competitively tendered, with submissions critically reviewed by the Employers Agent and in-house evaluation team. The start of on-site construction could have commenced in March this year but has been subject to delays largely arising from the Hampshire County Council Section 278 Highway Agreements still not having been completed for both sites. This type of Agreement will cover detailed highway engineering matters of a technical nature such as highway access and drainage. This has been an unpredictable delay beyond our control and will lead to a loss of rent if there is a delay in tenants taking residence.

We anticipate that there will be a direct impact on the cost of materials and labour when the local SME contractors are in a position to source materials required for the construction of the sites and prices are increasing. Whilst tenders have been awarded within the allocated capital budgets for the schemes it may not be reasonable to expect smaller firms to bear all of this financial risk themselves. Ultimately, we wish to deliver quality affordable housing maintaining a positive and engaged relationship with the contractor.

Key actions taken to address the risk included:

- The project team at the Council and the appointed Employers Agent have kept in touch with those dealing with matters at Hampshire County Council. This matter has been noted by CXMT.
- The project team at the Council and the appointed Employers Agent have also kept in touch with the appointed Contractors, keeping them up to date with the position and managing the working relationship.
- Treasury management advice has been taken regarding borrowing sources and timing along with interest rate predictions.
- Legal and procurement advice sought on the contractor obligations resulting from the delays (indications that the cost/risk lies primarily with the contractor).
- The Trust (who are financially contributing to the Station Road project) kept informed about the delays and timings of the project
- Work is complete on the Shared Ownership Policy subject to a final check by Legal Services and this will be reported to the November Executive so there is no delay when the works start.
- Preparations for publicising the Shared Ownership project is underway to raise awareness of the scheme and availability for those unable to afford properties on the open market and would like to take up the shared ownership option.

Key actions still to do include:

- We will continue to seek to improve the joint working process with Hampshire County Council
- At a suitable point a formal press release will be made, and expressions of interest will be sought for the Stubbington Lane shared ownership dwellings. This work will also inform future shared ownership provision considerations and a marketing tool when the sales process is open. .
- We will continue to avoid a hard-line approach with the contactors as this may inevitably lead to arbitration which we would hope to avoid by reasonable and supported negotiation.
- We will continue to manage the financial resources at our disposal including continuing to pay regard to Treasury Management advice regarding borrowing sources and interest rates.

Covid - Incoming Calls Exceeding Capacity

There were points in the early phases of the Pandemic response that the phone demand through the switch board and services such as Benefits and Council Tax were exceeding capacity, leading to customer stress and dissatisfaction.

Service Area(s) leading on managing the risk:

Corporate Services

For further information contact:

Customer Services Manager (AR)

Background to the Risk

The Customer Service Centre (CSC) provides a critical service for the organisation in managing incoming calls to the general switchboard number. There are also designated numbers for key services such as benefits, council tax, street scene enquiries and food parcel enquiries. At the start of the pandemic there was an unprecedented surge in calls through all the channels from worried residents and businesses at a time when services were dealing with staff having to isolate, working arrangements from home and new streams of demand were being taken on such as hardship support.

Key actions taken to address the risk included:

- CSC and ICT set up functionality and equipment to allow switchboard calls to be taken at home
- Headsets and equipment set up for council tax and benefits to take direct dial and transferred calls from home
- Direct dial numbers for key services advertised outside the Civic Offices and on the Council's website, to reduce the volume of calls being received by the main switchboard
- Dedicated Covid page set up on the Council's website with the latest information on Council services, community help, advice for businesses, volunteering opportunities and how to donate essential supplies, regularly updated to keep our residents informed
- CSC staff covering the office also assisting with calls and provided with hot desk equipment for use when required to work from the offices
- CSC staff trained up to be the first line of assistance for callers about council tax and benefits, to enable the callers to be signposted effectively
- CSC staff trained up to be able to take rent and council tax payments over the phone
- Voicemail facilities utilised if needed and linked to an email record in a designated inbox
- Dedicated Business Grants helpline set up and manned

Nitrate Mitigations for Residential Development

In March 2019, the Council stopped being able to grant planning permission on new residential and overnight accommodation. This affected the ability to deliver housing needed to meet the Council's 5-year housing supply requirement.

There is the residual risk that the nitrate credits available from the schemes put in place could be exhausted at some point in the future which would, once again, prevent the granting of planning permission to build new residential developments.

Service Area(s) leading on managing the risk:

Development Management

For further information contact: Head of Development Management (LS)

Background to the Risk

Natural England, the statutory consultee with responsibility for the natural environment, advised the Council, and other Councils with a Solent coastline, that development in the Borough must be nitrogen neutral in order to mitigate a likely significant effect on internationally important protected sites in The Solent.

High levels of dissolved inorganic nitrogen (made up of nitrates, nitrites and ammonium) are affecting The Solent coastline and the feeding sites of over wintering birds. Nitrate rich water breeds algae and cuts off the natural vegetation these birds need to feed on, and light to the seabed. There are also plants, habitats and other animals within The Solent which are of both national and international importance. Some of these are protected by UK Law.

One of the causes of a deterioration in water quality is new developments creating additional wastewater which is treated at Peel Common Wastewater Treatment Works and discharged into The Solent. The percentage of nitrate coming from this source varies depending on the location in The Solent but is small in comparison to that arising from agriculture and background levels already in the waterbody.

No planning permissions could be granted for a considerable period after March 2019 on new residential and overnight accommodation. This was affecting the ability to meet obligations in terms of housing need.

Several solutions were considered including:

a) Management of existing agricultural land

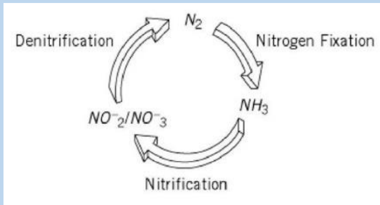
b) Wetland creation

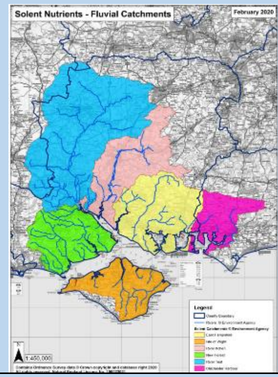
c) Water efficiency measures in existing FBC housing stock

d) Improvements to Peel Common wastewater treatment works

e) Additional mitigation land secured through the Regional Habitat Creation Scheme

f) Catchment Sensitive Farming Advisors and advice





Key actions taken to address the risk included:

- Mitigation schemes identified across The Solent catchment area which could generate nitrate credits by switching land use from agriculture.

• Tripartite agreements set up for agricultural land outside of the Borough, between agricultural landowners, FBC and the local authority where the land is based. These agreements stop the land from being used agriculturally, in perpetuity, and contain a calculation for the 'nitrate credits' based on the type of agricultural land use and the area of the land. • Schemes with agreements in place publicised to developers, so they can approach the landowner and buy enough nitrate credits to offset the expected nitrate debits expected to be created through the additional residents being housed in new builds (based on the estimate of the amount of waste they will be contributing to the treatment works). • Under the agreement the local authority (where the land is) is required to monitor that the use of the land (and any required actions such as tree planting) continues in accordance with the agreement terms. This monitoring is paid for by the landowner (who in turns gets income from selling the nitrate credits). • Investigated potential to buy up farmland to sell for nitrate credits (but price increases were prohibitive) • Improved water efficiency of the Council's housing stock to generate credits which are used for the FBC housing builds. • Commissioned work across the Borough, to assess whether the effects of emissions from increased traffic along roads within 200 metres of European Protected Sites would have a likely significant effect upon them. This work has been completed and it was concluded that there would not likely be significant effects upon European Protected sites arising from this source.
Key actions still to do include: • Continue to take advantage of the opportunities that arise, including entering into more agreements or partaking in other solutions that may come to light to mitigate the impacts of nitrates upon The Solent from new residential development. • Lead on actions arising from the monitoring which indicates that the agreement in terms of the changed land use is not being adhered to.

Appendix C - Risks noted where further actions are still needed

Failure to meet the requirements of the Building Safety Bill 2021

Under the new Building Safety Bill, if the Building Control Partnership is unable to evidence the necessary competencies outlined by the Building Safety Regulator, there is a risk the partnership could be put into special measures.

Service Area(s) leading on managing the risk:

Building Control

For further information contact:

Head of Building Control Partnership (JS)

Background to the Risk

As part of the response to the Hackitt report into building regulations and fire safety following the Grenfell tragedy, a new building safety bill is due to come into place at the end of 2021, which will include a two-year transition period. Under the bill a new Building Safety Regulator will be responsible to oversee both the private and public sector building control officers who will be required to become registered and providing existing and ongoing proof of specific competencies. In particular only local authorities will be permitted to carry out the building control work for high-risk buildings (over 18m tall and containing living accommodation), and the regulator will have an expectation that the local authority has the necessary competencies in place when called upon to do this work. There are some "in-scope" buildings in Portsmouth and Gosport.

As part of the second stage of the new process, the Building Control Partnership could be called upon to provide relevant regulation expertise on submitted applications, ready for approval. There are still a number of details to be outlined as part of the new bill. However, it is anticipated the new bill could result in increased workload, existing employees becoming highly valuable and result in additional pressures to ensure the team obtain and maintain the required competencies.

It has been confirmed there will be necessary sanctions should any authority be put into special measures. It has not yet been confirmed what the sanctions will be, but it has been suggested penalties such as fines could be implemented.

This is a major risk for the service in terms of the changes to the market in which they operate, how they resource the new responsibilities and managing the change with their clients, alongside the parts of the current application process that are not changing.

Key actions taken to address the risk include:

- Continual monitoring of the information about the bill being communicated by the bodies involved in advising the government - Chartered Association of Building Engineers and RICS (Royal Institute of Chartered Surveyors).
- Subscription to the LABC (Local Authority Building Control) as the national representative body
- Registered for updates from the Building Safety regulator as they arise
- Liaison with other building control teams.

The Head of Building Control is confident the existing team has the relevant competencies which have so far been announced

Key actions still to do include:

- Provide future training programme to ensure competencies are maintained. This will be funded from the building control reserve.

Local Government Boundary Review

There is the risk of not complying with the Boundary Commission's requests for information which could result in a financial penalty. There is an additional risk that the provision of flawed information does not result in the optimal democratic arrangements for the Borough.

Boundary Commission for England

Service Area(s) leading on managing the risk:

Democratic Services

For further information contact:

Head of Democratic Services (LU)

Background to the Risk

The Local Government Boundary Commission for England (LGBCE) is undertaking a fundamental review of the governance structure of the Council, including the warding patterns across the Borough, which they do periodically (our last one was in 2000). The review process takes around a year with two phases of public consultation where proposals and comments on ward boundaries are asked for.

The first phase is to determine the total number of councillors that should be elected to the council in the future; this is to be completed by December. The consultation will then take place during next year to determine the total number of wards, and the ward boundaries. It will also determine the number of councillors elected to each ward and the name of each ward.

The final recommendations will be published in November 2022, coming into effect in 2024. The 2022 election will be for a two-year term only, then 2024 will be all out, two candidates per ward being elected.

Key actions taken to address the risk included:

- Full review and analysis of the current wards in the Borough including electorate data against the tolerances set
- Forecast electorate for 2027 by polling district, capturing current data, plus Local Plan Development forecast and Polling District forecasts
- Analysis of the impact of Welborne along with other development sites that will be built and lived in within 5 years
- Communication plan with CXMT and members

Key actions still to do include:

- Final submission to LGBCE recommending the number of councillors
- Communications plan for subsequent consultation on the ward boundary arrangements

Corporate Criminal Offence of Facilitation of Tax Evasion **There is a risk that FBC could be considered to have been facilitating tax evasion either internally or through a third party, meaning we have committed a corporate criminal offence. This could lead to an unlimited financial fine and damage to our reputation.**	 	Service Area(s) leading on managing the risk: **Finance and Audit** For further information contact: Finance Business Partner (KC)

Background to the Risk

Part 3 of the Criminal Finances Act 2017 creates the Corporate Criminal Offence (CCO) of failure to prevent the facilitation of tax evasion by an associated person, either in the UK or overseas. An associated person can be an employee, agent, or persons who perform services on behalf of the Council.

For example, if FBC used a supplier during the pandemic with the knowledge that they were receiving furlough payments for the employees they were using on the FBC contract, then FBC would have committed a criminal offence

The key defence against allegations of the offence is to have reasonable prevention procedures in place.

HM Revenues and Customs can at any time undertake a Business Risk Review to look at and rate the FBC response to CCO. This rating would be based on how we mitigate the risk of committing an offence through our behaviours across six core principles: Risk Assessment, Proportionality of risk-based prevention, top level commitment, due diligence, communication (including training) and monitoring and review.

Key areas of tax risk that have been identified for FBC are: VAT, Construction Industry Scheme, PAYE, IR35, Stamp Duty Land Tax and Covid Grants.

Key actions taken to address the risk included:

- A draft Corporate Criminal Offence Policy (failure to prevent the facilitation of Tax Evasion under the Criminal Finances Act 2017) has been written, detailing the FBC response to the six core principles and what the key areas of risk are. Top level commitment obtained from Senior Managers
- A risk assessment has been compiled and is updated as new risks and mitigations are identified.
- An action plan has been created to detail our response at mitigating key areas of risk
- Appropriate questions and terms included in the procurement process
- Annual Tax working group set up to carry out an annual review against the CCO risks
- Training has been held for all GPC card holders, to inform them about the CCO responsibilities, and how to correctly account for VAT

Key actions still to do include:

- Top level commitment needs to be sought for the policy from the Audit and Governance Committee.
- Delivery on the new actions identified in the action plan included training and awareness of other targeted groups

Welborne development stalls due to funding gap for the motorway junction

There is the risk that the progress on the site is delayed, resulting in increased costs, and ultimately there is the risk that fewer houses can be delivered by the development if the motorway works do not happen.

Service Area(s) leading on managing the risk:

Welborne

For further information contact:

Welborne Strategic Lead (SW)

Background to the Risk

In order to accommodate the number of homes in the Welborne development, changes are needed to Junction 10 of the M27. If this work is not completed, then the number of homes that can be built on the site will reduce from 6,000 to 1,160.

There is a condition on the planning permission that works on the site cannot commence until an approved funding strategy for the junction has been submitted to the Council.

There are a number of parties and different funding streams involved with the delivery of the junction including: the developer, Hampshire CC (Highways), the Department for Transport, Solent Local Enterprise Partnership, Government Departments / Homes England, and Fareham Borough Council.

Housing Investment Grant (HIG) Funding has been offered by Homes England which will require agreements to be entered into by Fareham Borough Council and Hampshire County Council.

There are a number of risks at play in relation to the funding for the junction:

- Risk – Gap in funding remains after contributing party options exhausted
- Risk – Developer unable to borrow for their contribution to the scheme
- Risk – Homes England grant determination agreement unacceptable / too high risk to one of the parties
- Risk – Homes England agreement not endorsed by senior government officials

Key actions taken to address the risk included:

- Representations made to Government
- Joint working with other involved parties and partners on the project
- Working with HCC as the scheme promoter to enter into the grant determination agreement with Homes England
- Parallel memorandum of understanding to be entered into between Fareham Borough Council and Homes England
- S106 signed as a tripartite agreement
- Cabinet approval at councils in place to enter into agreements
- Planning committee approval for the revised levels of affordable housing
- Clause included in agreements for use of the funding for affordable housing as the developer makes profits

Key actions still to do include:

- Agreements to be approved by Secretary of State and Chancellor and signed by all parties
- Finalise the terms of the Memorandum of Understanding with Homes England
- Tenders to be sought by HCC against the scheme design to see if the funding pot is adequate.
- Contingency sum to be added to the scheme forecasts

Failure to Deliver Fareham Live

The construction of Fareham Live, as with any new building, has the inherent risks of failing to deliver the project on time to agreed specifications and within budget.

Service Area(s) leading on managing the risk:

Property Services

For further information contact:

Property Development Officer (GS)

Background to the Risk

This is a big project for the Council and Property Services are key to it being delivered. Risks associated with the project include:

- Building not ready by official opening time – reputational risk
- Financial Implications of delays in completing the building e.g. loss of management fee income and extra contractor costs
- Cost of the Building exceeds the budget allocation e.g. unknowns found that are outside of the fixed price tender
- Funding sources (e.g. CIL) not in place as the project progresses
- Levelling up funding bid timescales not achieved
- Lack of continuity in the management team of the operator
- Project design does not lead to the expected income streams e.g. dining experience
- Legalisation requires a change in building design e.g. Covid requirements for better ventilation

There are clear delivery requirements that are expected for the design of the building; for example: 800 seat capacity, second auditorium, improved access with wider open plan reception. However, since the plans were finalised the management team of the operator have changed. The Property Services team will need to ensure the approved design is delivered without changes that could increase cost or delay completion.

The original budget envelope was based on the Quantity Surveyor estimates and it is unknown what the actual tenders will come back as, given the increases in labour and materials costs. All contractors on our shortlist prepared before Covid, with the exception of one contractor who now has a full order book, will receive our tender document before the end of October 2021. Against a very buoyant construction market we are due to receive tenders back at the end of December 2021.

The funding options include the forward funding of Community Infrastructure Levy (CIL) and the Levelling Up Fund bid which should be announced in the Autumn. If we are accepted, we will need to start works in March 2022. The evaluation process will involve contractor interviews so there may be a need for a special executive meeting to meet these challenging deadlines.

Key actions taken to address the risk included:

- Design has been agreed by the different parties and Property Services leading on delivering to the design and sign off of the construction phases
- Shortlist of tenders agreed. The Finance Business Partner has carried out checks on the companies to ensure they are the right size and local for the project.
- Experienced project manager appointed, and experts pulled in as needed
- Professional team in place with clear responsibilities and chain of authority
- The Budget envelope has been re-evaluated post-Covid and takes account of the cost increases happening in the market

Key actions still to do include:

- Respond to the outcomes of the Levelling Up Fund bid
- Identification of any unknown costs once works commence and revaluation of the specification

Recruitment to Hard to Fill Posts

There are traditionally some hard to fill posts which are being made more challenging by recent changes in the habits in the labour market.

Failure to recruit can make it difficult to deliver services and impact on those employees who are in post.

Service Area(s) leading on managing the risk:

Human Resources (HR)

For further information contact:

HR Business Partner (TH)

Background to the Risk

One of our biggest issues presently is an aging workforce and a competitive marketplace. Traditionally there are posts such as HGV drivers and building control surveyors which are hard to recruit to. Other companies are offering incentives for a limited resource pool and employees are being more demanding in their expectations from an employment package (e.g. home working opportunities). The uncertainty in the economy is also making a section of the labour force reluctant to change roles.

Key actions taken to address the risk included:

- We are changing working conditions to recruit the right people, using this opportunity for a culture shift to a new hybrid way of working and flexible working which suits the current labour market
- Benchmarking packages being offered by other organisations and offering rewards such as market supplements as appropriate
- Further use of specific targeted advertising.
- An online recruitment tool is being sought for purchase to free up some HR officers’ time so they can run interventions.

Key actions still to do include:

- Reintroducing more training packages as an incentive to attract new employees.
- Review of competitiveness of the FBC package being provided to professionals and managers

Civic Offices Refurbishment to meet the Operational needs of Services and Tenants

The nature of the works needed to the Civic Offices need to be evaluated to ensure the building stays fit for purpose; this will place a funding need in the capital programme.

Service Area(s) leading on managing the risk:

Property Services

For further information contact:

Property Manager (IC)

Background to the Risk

The Civic offices have not had any major refurbishment projects whilst the decision of its future need or uses had been debated. The decision has now been made to continue to use the Civic offices as the main location for office-based employees of Fareham Borough Council and any tenants that may wish to rent parts of it in the future. With this decision comes the need to understand the needs of the building and making it fit for that purpose.

The refurbishment will need to take account of the following issues:

- Meeting the green agenda policy and carbon reduction plan:
  - Original windows from 1974 with poor thermal quality
  - Heating and ventilation components are failing – also may need to change in light of future gas availability and costs plus Covid ventilation requirements
  - Fluorescent tube lighting is still being used – there will be a need to move to LED
- The other refurbishment needs of the building:
  - The overdue renewal of the protective concrete coating
  - Refurbishment of the toilet facilities that were last updated in 2005 but need further investment to prevent the frequency of closure
  - Inter floor security to enable FBC employees and tenants of the building to work together safely and securely
- New ways of working:
  - More people working from home may lead to a need for different office layout
  - Possibly less need from tenants as their staff find other ways of working or more choice of other workspace locations – leading to loss of tenant income

Key actions taken to address the risk included:

- Review completed of the future need to retain the Civic Offices

Key actions still to do include:

- Development of Asset Management Plan for the civic offices including what is needed for the new way of working and the carbon reduction action plan.
- Identify funding sources for the plan.

Insufficient Funds for Community Building Repairs

There is the risk that works FBC are responsible for are not completed on Community Buildings, which could mean the buildings fall into a state of disrepair, become unusable or the costs of repair increase significantly.

Service Areas (s) leading on managing the risk:

Leisure and Community

For further information contact:

Leisure and Community Manager (EW)

Background to the Risk

In 2020 a piece of work was undertaken by Property Services to understand the repairs required to keep our Community Buildings up to an appropriate standard. This piece of work identified Capital Works required to the value of £422,000, with a further £112,500 of revenue expenditure required over a 5-year period. The key risk is that there is no funding readily available for these works which could lead to the buildings having to close with nowhere else for the associations to go, or that failing to repair something causes injury.

Key actions taken to address the risk included:

- Full review of all community buildings.
- Review of the legal obligations associated with the works
- Prioritisation of works needed as medium and high risk across a 5-year programme
- Review of leases to understand who is responsible for what work (FBC or the tenant (Community Association))
- Flagged in the Capital Strategy for future funding

Appendix D – Detailed List of Risks, Opportunities and Actions Covered in the Manager Discussions

Lists of Risks Discussed with: HEAD OF BUILDING CONTROL PARTNERSHIP	Included in main report
Risks where new actions were taken <u>anticipating</u> risks or opportunities	
Covid Risk – Failure to maintain business as usual during the pandemic Actions taken to resource the tasks that were still needed during lockdown and provide the level of responsiveness that clients were used to.	
Covid Risk - Spread of Infection amongst workforce and client employees Protocols introduced and communicated across the team and clients to allow tasks to continue, including physical inspections, without an increased risk of infection with the Covid-19 virus.	
Covid Risk – Drop in employee well-being due to increased workload and changed holiday habits Actions taken to promote employee time-off even though the workload had increased, and the usual vacations were not happening.	
Non-Covid Risk – Income Levels for the Partnership Drop Continued action taken to monitor and increase market share to ensure costs of the partnership at least breaks even	
Non-Covid Risk – Failure to adequately attract and retain professionals to deliver the service Actions taken to promote recruitment, retention and succession planning for technical and administrative employees.	**Y**
Non-Covid Risk – Poor advice given as Sports Safety Ground Inspector Actions taken provide appropriate advice to Portsmouth Football Club as part of the Safety Advisory Group which protect spectators at Fratton Park.	
Non-Covid Risk - Poor safety advice given for Festivals and Events	
Risks where new actions were taken <u>reacting</u> to risks or incidents	
Non-Covid Risk– Windows update causing a loss in functionality of the tablets used out on site	

Risks noted where further actions are still needed	
Non-Covid Risk – Failure to meet the requirements of the Building Safety Bill in terms of maintaining team competencies Actions taken to keep abreast of what the requirements may be and prepare as appropriate.	**Y**
Non- Covid – Failure to comply with the Building Safety Bill for FBC owned buildings Actions taken to keep abreast of what the requirements may be and communicate them. In particular the need for a named building safety manager.	
Non- Covid – Impact of Hot Weather on ground stability and buildings where building control work has been completed (especially prior to being part of the partnership)	

Lists of Risks Discussed with: HEAD OF DEMOCRATIC SERVICES	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk – Effective and legal decision making not able to continue during the pandemic • Risk – No alternatives to holding formal committee meetings available in the required timescales • Risk – Unable to maintain good communication between democratically elected members to enable them to fulfil their governance role • Risk – Ineffective technology or user support affecting the operation of virtual meetings	
Covid and Non-Covid Risk – Failure to deliver an efficient and legally compliant election in May 2021 • Risk – Not enough resources available to deliver the elections due to election staff vulnerabilities and self-isolation rules • Risk – Venues not available for use as polling stations (e.g. schools) • Risk - Value for money not obtained when booking venues and purchasing additional equipment for the polling and count venues • Risk – Unable to resource the postal vote opening process due to the increased demand from the vulnerable population and the handling of 3 sets of ballot papers • Risk – No venue available for the election count (due to the closure of Ferneham Hall and the construction works at the leisure centre) • Risk – Candidate applications are mishandled so they are not able to stand for election • Risk – Errors on printing of the ballot papers	
Covid Risk – Spread of Covid infection caused by the May 2021 election	**Y**
Covid Risk –Failure to Comply with Government Procurement Policy Notes (PPNs) issued during the pandemic	

Non-Covid Risk – Breach of International data sharing rules due to the changed status of the UK following Brexit	
Risks where new actions were taken <u>reacting</u> to risks or incidents	
Covid Risk – Unable to appoint a new Civic Mayor for the 2020/21 term of office	
Covid Risk– Democratic and Elections staff not able to carry out their duties during periods in the pandemic (e.g. no 2020 election or annual canvass)	
Covid Risk – Uncertainty as to whether the May 2020 Election was going to be cancelled • Risk that do not continue adequately with the election preparation timetable and the elections do get held • Risk that adequate IT connections not available in time at the Leisure Centre • Risk that unnecessary costs are incurred • Risk that do not adequately provide for members who were intending to stand down at the election	
Risks noted where <u>further</u> actions are still needed	
Non-Covid Risk – Lack of clarity around Procurement Rules and future requirements following Brexit	
Non-Covid Risk– Mental wellbeing of staff affected by the need to adapt to the new way of working	
Non-Covid Risk – Loss of experienced staff before the next election	
Non-Covid Risk – Unable to resource responding to the increase in member complaints	
Non-Covid Risk – Failure to adequately deliver the Local Government Boundary Review • Risk – Outcomes of the review are flawed and affect future ward sizes and the number of councillors being elected • Risk – Penalty if do not comply with the Boundary Commissions instructions and deadlines • Risk – Failure to adequately prepare for the first post-review election in 2024 (involving the election of 2 candidates in each ward)	**Y**
Non-Covid Risk – Failure to adequately support the culture change of the new way of working (paperless committees)	

Lists of Risks Discussed with: HEAD OF DEVELOPMENT MANAGEMENT	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk – Tools and equipment not available (at the start) to deliver the service (and team members without adequate person tech including broadband)	
Covid Risk – Unavailability of printing facilities (plans, consultations and laminated notices) needed for the planning process	
Covid Risk – Unable to carry out on-site inspections as part of the planning application process / risk of infection amongst the staff and applicants	
Covid Risk – Well-being of staff affected by loss of office working environment	
Covid Risk – Loss of income due to a fall in demand for planning applications (recovered by the end of the year)	
Covid Risk – Working from home affects ability to liaise adequately with relevant team members on cases (loss of multiple immediate small conversations)	
Covid Risk – Failure to meet customers' expectations / application decision target times due to remote working and increases in demand for planning applications	
Covid Risk – Unable to cope with the increased phone call demand for general enquiries	
Covid Risk – Unable to respond to the increased number of planning enforcement cases	
Covid Risk – Unable to make planning decisions due to the lack of a Planning Committee	Y
Non-Covid Risk – Failure to adequately recruit and retain specialist staff in a competitive market	
Non-Covid Risk – Operation problems occur with the new S106 module in Ocella	
Risks where new actions were taken reacting to risks or incidents	
Non-Covid Risk – Natural England nitrate advice affecting the ability to grant planning permission for housing Risk – Non-compliance with the Natural England advice (continued impact on the Solent bird and marine life)	Y

Risk – Unable to grant planning permission for new housing therefore impacting on meeting the 5-year housing supply requirement Risk – Legal challenge from third parties if mitigation not properly identified and secured Residual Risk – Landowners for mitigation schemes do not comply with the terms of the agreement Residual Risk – Nitrate credits for the Borough are exhausted	
Non-Covid Risk – Natural England advice on the impact of Fareham residents on the designated sites for birds in the New Forest affecting the ability to grant planning permission for the developments in the western side of the Borough	
Non-Covid Risk – Judicial review for housing planning permissions in Warsash	
Risks noted where further actions are still needed	
Non-Covid Risk – Council's Tree Strategy doesn't adequately balance the needs of the Borough against the financial cost of the approach taken Risk - Failure to deliver within the revised budget established in October 2021 Risk - Insurers oppose the new proposed inspection regime leading to increase costs Risk - Unknown impact on the cost of planned trees works by the new inspection regime Risk - Unable to generate sufficient strategic tree planting sites Risk - Volunteers not forthcoming to help manage the trees on the strategic sites Risk - Street scene do not have the capacity to take on the tree planting at the strategic sites as well as the low-level tree works	
Non-Covid Risk – Council's approach to Ash die back is not the most cost effective or results in damage or injury	
Non-Covid Risk – Significant financial impact arising from planning appeals	
Non-Covid Risk – Delays with the Welborne development after Planning permission and s106 agreement completed Risk – Funding for Junction 10 of the M27 not in place Risk – Reserved matters not agreed for the rest of the development (following the outline planning permission already granted)	

Lists of Risks Discussed with: HEAD OF FINANCE AND AUDIT	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk – Impact on the Financial Resilience of the Organisation	Y
Covid Risk – Failure to deliver adequate Business Grants Schemes to support local businesses • Risk of not paying grants in accordance with the government rules leading to them failing to honour the payments FBC made • Risk of not meeting customer expectations in assisting them with accessing grants available • Risk of applicant dissatisfaction with the process and outcomes • Risk of fraud and error in the processes • Risk of breach of GDPR in handling of the data collected for the schemes • Risk of not meeting government expectations in speed of delivery of the schemes (and losing money available to give out) • Risk of not meeting government expectations (including HMRC) in terms of completion of the plethora of returns	
Covid Risk – Failure to meet the grant conditions attached to government funding schemes	
Covid Risk – Failure to meet HCC expectations in the delivery of the Test and Trace support service	
Covid Risk – Implementation of changes to financial processes, such as the payment of invoices, to cope with the workforce working from home, leads to fraud and error	
Covid Risk – Failure to meet statutory requirements such as the production of the Statement of Accounts and the External Audit of those accounts	
Covid Risk – Issuing of a Qualified Chief Internal Audit Opinion due to inadequate internal audit coverage in the year	
Covid Risk – Failure to meet the organisation's or employee needs in terms of office and homeworking during the different phases of the pandemic (including keeping everyone safe and safeguarding their mental well-being)	
Non-Covid Risk – Failure to implement the Breathing Spaces Regulations (Debt Respite Scheme) resulting in an offence being committed under the Unfair Trading Regulations and repayment of the protected person's costs.	
Risks where new actions were taken reacting to risks or incidents	

Covid Risk – Reduced ability to carry out debt recovery activities to retain income collection levels • New Government legislation to protect vulnerable people and businesses during the pandemic • Local policy changes to support those in hardship • Unavailability of legal system to pursue persistent debtors	
Covid Risk – Inability to cope with telephone demand for council tax and business grants teams	
Risks noted where further actions are still needed	
Non-Covid Risk- Committing the Corporate Criminal Offence of failure to prevent the facilitation of tax evasion	**Y**
Non-Covid Risk – Failure to implement a new finance system which is fit for purpose • Risk of late delivery incurring financial penalties • Risk of functionality not available or inaccurate to meet statutory obligations such as Statement of Accounts and VAT returns • Risk of poor user buy-in to the new system • Risk of not achieving the process and financial benefits and priorities set for the project	
Non-Covid Risk – Inability to bridge the Finance Strategy Funding Gap	
Non-Covid Risk – Excessive external audit costs incurred as the result of a poor approach to the procurement of the external Auditors	

Lists of Risks Discussed with: HEAD OF HOUSING DELIVERY	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid risk - Risk of Covid infection, and the perception of the safety of working arrangements for employees, members, and the public, during the pandemic.	Y
Non-Covid risk – Failure to use the funding streams available to maximise the delivery of development priorities in the Borough • Changes in the regulations for the use of one-to-one receipts • New grant funding opportunities arising, for certain tenure and build types • Maintenance of the HRA reserves to support future capital spend • Identification of monies available through S106 agreements for affordable housing	
Non-Covid risk – Failure to adequately resource the different services being provided by the team – A new team structure was implemented and successfully recruited to, along with ongoing effective management of the capacity of the team across different projects.	
Risks where new actions were taken reacting to risks or incidents	
Covid risk – Delivering Housing Development Sites in progress during the pandemic - The national lockdown arising from the Covid-19 pandemic effect on the construction of sites in progress at the time and the ability to deliver on time with no financial loss.	Y
Non-Covid risk – Delays with Housing Development Sites ready to start - Project price increases for Housing Development sites ready to start but are being delayed due to HCC Section 278 Highway Agreement delays	Y
Risks noted where further actions are still needed	
Non-Covid risk – Increases in forthcoming tender prices for Housing Development Sites exceeding the capital budget provision for the schemes Economic impact of Covid and other factors leading to increased costs of labour, materials and uncertainty contingencies, and the increased demand for construction work	
Non-Covid risk – Implementation of the new housing systems does not deliver the expected benefits and results in unexpected costs and errors	
Non-Covid risk – Failure to deliver the carbon reduction measures available from greener housing stock	

Non-Covid risk – Lack of appropriate policies in place to support specific Housing Developments • Affordable Housing Strategy – now adopted • Fareham Housing Greener Policy – now adopted • Shared Ownership Policy – nearly finalised • Acquisition Plan and Empty properties strategy – to do • Sheltered Housing strategy – to do • Regeneration Strategy – now adopted	
Non-Covid risk – Welborne – Failure to maximise the Affordable Housing Delivery achievable for the new development	
Non-Covid risk – Failure to successfully implement the new way of working with no impacts on service delivery	

Lists of Risks Discussed with: HEAD OF STREET SCENE	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk – Unavailability of Staff to deliver the priority services and the increase in demand	**Y**
Covid Risk – Mental well-being of staff asked to isolate deteriorates due to non-availability of tasks to be done and difficult home environment	
Covid Risk – Infection spread by service working arrangements and poor social distancing measures	
Covid Risk – Infection spread amongst the public using the council services (e.g. play areas, open spaces)	
Non-Covid Risk – Problems arise with delivering the new chargeable service for Garden Waste Risk – Not enough vehicles to cope with demand Risk – Bins are not delivered on time for the due date for the start of the service paid (which have been paid for upfront) Risk – Over-preparation for service demand that does not materialise, resulting in abortive costs Risk – Demand does not meet required income generation targets Risk – Unable to cope with peaks of demand for delivery of new bins after go-live date Risk – Unable to deal with spike in phone call enquiries Risk – Public not aware in the change in the service (including having left over green plastic sacks) Risk – Managing complaints received about the introduction of the charge and the cost of the publicity campaign Risk – Software failures including poor management of subscription starters and stoppers Risk – Disposal arrangements stop being available	**Y**
Non-Covid Risk - Lack of HGV Drivers in the country	
Non-Covid Risk - Rounds are not balanced to optimise the delivery of the service An additional round has now been added to the establishment	
Non-Covid Risk - Cemetery Regulations do not maximise the capacity available for burials	
Non-Covid Risk - Poor inspection regimes for cemeteries and open spaces	

Software purchased to manage inspection records and extra resources undertaking routine inspections for hazards	
Risks where new actions were taken reacting to risks or incidents	
Covid Risk – Textile Market Collapse and loss of income stream	
Non–Covid Risk – Reduced availability of Fuel for Council Vehicles due to national delivery shortages	
Non–Covid Risk – Fuel pump failure at the depot preventing the use of the Council's fuel stocks	
Risks noted where further actions are still needed	
Non-Covid Risk – Failure to meet the requirements of the Environment Bill (Waste Strategy) Risk – Unable to deliver weekly food waste collections Risk – Unable to deliver kerbside collection of recyclable materials Risk – Uncertainty of the type of vehicles needed to respond to the waste strategy and procurement timescales to get them in place Risk – Impact of deposit return schemes on kerbside collection rates and income streams Risk – Local recycling facilities not ready in time to receive our food waste and other recyclables materials Risk – Impact of new responsibilities on meeting the climate change measures	
Non-Covid Risk – Vehicle fleet and infrastructure inappropriate for optimum fuel sources in terms of cost and environmental impact (e.g. electric vehicles, hydrated vegetable oil)	
Non-Covid Risk – Changes in relationship with HCC and potential drop in funding	
Non-Covid Risk - Additional demand for work arising from adopting additional land cannot be resourced	
Non-Covid Risk– Stock condition surveys of Sports pavilions and community buildings and Inspection regimes at cemeteries and open spaces identified works required that exceed current budget allocations	

Lists of Risks Discussed with: WELBORNE STRATEGIC LEAD	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Non-Covid Risk – Planning team not skilled up to assess applications against the design code for the scheme (delivered in 2020)	
Non-Covid Risk – Zero rated CIL policy for the scheme not adopted	
Risks where new actions were taken reacting to risks or incidents - None	
Risks noted where further actions are still needed	
Non-Covid Risk – Failure to maximise the delivery of affordable housing from the site	
Non-Covid Risk – Welborne development stalls due to funding gap for the motorway junction • Risk – Gap in funding remains after contributing party options exhausted • Risk – Developer unable to borrow for their contribution to the scheme • Risk – Homes England grant determination agreement unacceptable / too high risk to one of the parties • Risk – Homes England agreement not endorsed by senior government officials	**Y**
Non-Covid Risk – Delays on site due to parts of the process stalling: • Signing of the S106 agreement • Reserved matters applications • Discharging the pre-commencement conditions • Housing Strategy and Energy strategy • Plans for new school • Plans for Health and Well-being hub	
Non-Covid Risk – Failure to adequately manage public opinion on the different timescales for the smart motorway and works for junction 10, and the impact of the inquiry into smart motorways	
Non-Covid Risk – Failure to deliver the Welborne development puts pressure on other sites for housing development	
Non-Covid Risk – Political or public unrest about the development	

Lists of Risks Discussed with: LEISURE AND COMMUNITY MANAGER	Included in main report
Risks where new actions were taken <u>anticipating</u> risks or opportunities	
Covid Risk – Failure to provide adequate assistance to Vulnerable Groups during lockdown	Y
Covid Risk – Loss of Critical Supplier (Leisure Centre Operator)	Y
Covid Risk – Fraud and Error in the administration of the Covid-19 Special Grants Programme (for local community groups)	
Covid Risk – Covid infection spread as a result of Access All Areas events	
Non-Covid Risk – Risk of Health and Safety incident during an outside event (e.g. Christmas lights switch on)	
Non-Covid Risk – Risks when using the Ferneham Hall Building for the election when had been closed for development	
Risks where new actions were taken <u>reacting</u> to risks or incidents	
Covid Risk – Leisure events cancelled or had to be delivered in a different way (e.g. West Street sand pit)	
Risks noted where <u>further</u> actions are still needed	
Non-Covid Risk - Failure to deliver appropriate community arts and entertainment venue • Risk that the project is no longer fit for purpose following changes in habits after the pandemic (project temporarily put on hold) • Risk of increased construction costs • Risks that funding sources do not materialise • Risk that the financial model for the operation of the venue is no longer viable • Risk that the reduced subsidy for the venue is not realised	
Non-Covid Risk – Insufficient Funds for Community Building repairs	Y

Lists of Risks Discussed with: PROPERTY MANAGER	Included in main report
Risks where new actions were taken <u>anticipating</u> risks or opportunities	
Covid Risk – Buildings not available to assist with the basic delivery of services (ICT/Post/CSC/Tenants) • Facilities team split into A and B teams and work rotas to ensure one team available if Covid outbreak occurs • Skeleton CSC staff maintained • Extended opening times to 7pm whilst Public Health England had to prepare for pandemic • Extra duties during lockdown e.g. switching on/off PCs and flushing works at Ferneham Hall	
Covid Risk – Risk of Covid Infection amongst employees and tenants using the building • Working with Head of Housing Delivery on building layout for safe distancing – moving desks and signage etc. • Enhanced cleaning regime • Purchasing and distributing PPE	
Covid Risk – Unable to deliver Property Projects due to lockdown restrictions • Site visits reduced to a suitable level - some online, some visits to quieter sites e.g. Fareham Leisure Centre as closed to the public., Faraday - could view from a distance.	
Covid Risk – Unable to progress Property Projects due to non-availability of materials • Struggled to purchase construction / building supplies, particularly concrete products. Suppliers were either closed, working from home or had furloughed staff. Dates for delivery got pushed back. • Contractors have made slight increases in cost but reasonable.	
Covid Risk – Failure to deliver legal requirement to carry out gas servicing • Gas servicing contractor had good arrangements in place for social distancing and tenants felt safe. • Continue to go into properties - housing and commercial. • Different approach if someone was self-isolating - would rearrange visit unless there was a leak or no heating	
Risks where new actions were taken <u>reacting</u> to risks or incidents - NONE	
Risks noted where <u>further actions</u> are still needed	
Non-Covid Risk – Failure to Deliver Fareham Live to the correct specification, budget, and timescale • Risk – Building not ready by official opening time– reputational risk • Risk - Financial Implications of delays in completing the building e.g. loss of management fee income and extra contractor costs	**Y**

• Risk – Cost of the Building exceeds the budget allocation • Risk – Funding sources (e.g. CIL) not in place as the project progresses • Risk – Levelling up funding bid timescales not achieved • Risk – Lack of continuity in the design team provided by the operator • Risk – Project design does not lead to the expected income streams e.g. dining experience • Risk – Legalisation requires a change in building design e.g. Covid requirements for better ventilation	
Non-Covid Risk – Layout of ground floor (Civic offices) not meeting requirements (update) • This project needs updating as to what services require post Covid • Tenants (Probation team) – still in discussion about the needs of their service and what it will look like	

Non-Covid Risk – Failure to comply with Health and Safety Risks and Legislative requirements
• The Fire Safety Act 2021
    • Additional requirements on responsibilities of tenants
    • Additional requirements on fire doors – although we are ahead of schedule on this
    • Additional requirements on building cladding – although we only have low rise buildings with cladding so lower risk
• The Building Safety Bill
    • Will need to appoint a Building Safety Manager
    • Biggest issue will be people understanding their responsibilities in managing assets training officers and continuous awareness campaigns	

Non-Covid Risk – Failure to meet the carbon reduction measures required for the Council's buildings	
Non-Covid Risk – Funding availability to maintain and keep estate in good order • Daedalus site • Community Buildings • Pavilions and Gyms • Depot • Car parks	
Non-Covid Risk – Funding availability to maintain and keep Civic Offices in good order • Windows thermal quality • Concrete coating • Heating and ventilation system components • Phasing out of fluorescent tube lighting • Floor security • Toilet refurbishments	**Y**

Lists of Risks Discussed with: CORPORATE SERVICES MANAGERS	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk - Failure to communicate with the vulnerable groups in the Community	
Covid Risk - Failure to provide clear and appropriate signage at Council facilities to help people do the right thing	
Covid Risk - Maintaining CSC services under lockdown conditions (incoming calls, post, payments with no cash office, banking)	
Covid Risk – Spread of Covid infection at the Election Count	Y
Covid Risk – Spread of Covid infection as a result of reception opening to the public.	
Covid Risk – Failure to provide web platforms to aid communication with the public, employees, members & the Recovery Group	
Non-Covid Risk – Communication mechanisms do not meet local and legal expectations on big issues happening in the Borough e.g. Local Plan,	
Non-Covid Risk – Failure to deliver expectations communicated in relation to the Council's response to Climate Change	
Non-Covid Risk – Technical capability of alternative sites to Ferneham Hall not suitable to delivering elections	
Non-Covid Risk – Failure to meeting legislative requirements and deadline for Website accessibility and use of Cookies	
Risks where new actions were taken reacting to risks or incidents	
Covid Risk - Incoming calls during the early part of the pandemic exceeding capacity	Y
Non-Covid Risk – Loss of Cash receipting facilities in December 2020	
Risks noted where further actions are still needed	
Non-Covid Risk – Communications Strategy not maximising engagement with hard-to-reach groups	
Non-Covid Risk – Failure to deliver benefits from the Website Migration to the Cloud	

Lists of Risks Discussed with: HUMAN RESOURCES BUSINESS PARTNERS	Included in main report
Risks where new actions were taken anticipating risks or opportunities	
Covid Risk – Failure to keep vulnerable employees safe from infection.	**Y**
Covid Risk – Vaccination roll out not successful • Risk that take-up was low so could not get employees back into work (and vaccinations wasted) • Risk that side effects of the vaccination resulted in significant lost time all within one service	
Covid Risk – Non-Compliance with the ever-changing Government Guidance • Risk that misinterpreting rules or missing changes causes conflict with employees and reputational damage if an outbreak occurs • Risk that do not meet the government's requirement for statistical information	
Risks where new actions were taken reacting to risks or incidents	
Covid Risk – Ensuring that enough staff are available to deliver the priority services • Risk that vulnerable staff are not able to continue working in a safe way • Risk that home environment not suitable for home working (or unstable) / reduces productivity (e.g. home schooling) • Risk that test and trace and self-isolation schemes impact on staff availability	
Covid Risk – Impact of Pandemic on mental well-being of the workforce (incl Covid anxiety, school closures and the loss of loved ones)	
Risks noted where further actions are still needed	
Non-Covid Risk – Not able to recruit to Hard to Fill posts	**Y**
Non-Covid Risk – New way of working impacts on service delivery and employee wellbeing	
Non-Covid Risk – Increase in sickness levels • Risk that reduction in social distancing measures leads to an increase in the spread of other infections • Risk of higher number of major operations as the NHS catches up • Risk that latent problems (such as stress) are being masked by the new working arrangements / focus on Covid	

Appendix E

FAREHAM
BOROUGH COUNCIL

RISK MANAGEMENT POLICY

Introduction

Risk is a fact of life. The day to day management of an organisation and delivery of services involve foreseeing and averting problems and maximising opportunities. Risk management is not about risk avoidance but risk awareness.

Fareham Borough Council recognises that risk management is an intrinsic part of Corporate Governance. It seeks to ensure that every member and employee of the Council has regard for the management of risks throughout the organisation to ensure that the Council's resources that our customers rely on are not squandered as a result of uncontrolled risk.

However, our aim is to put dealing with risks and opportunities at the forefront of our process, rather than tie up resources in the management of a rigid supporting framework. Instead we will *implement robust and integrated risk management arrangements,* as required by our Local Code of Corporate Governance, by adopting and adhering to a number of key principles.

This document therefore sets out our approach to risk management, as determined by the Chief Executive's Management Team, and endorsed by the Audit and Governance Committee.

Overriding Principle

The overriding principle of this policy is:

The Purpose of Risk Management

The Council has defined the purpose of its risk management arrangements as:

We want to know what risks we are facing

We want to know when opportunities arise

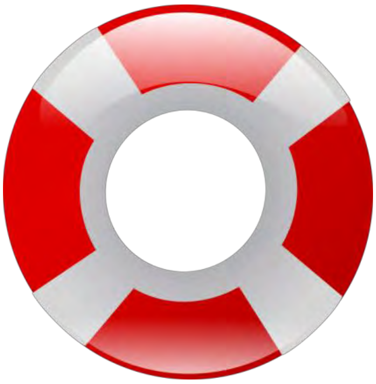
We want to be aware of what actions we are relying on

We want to know if there are additional actions we need to take

So that we can….

Prevent bad things from happening

Not miss out on good things



So that we can….

Avoid injury to people

Minimise avoidable cost

Maximise resources available

Deliver the purposes of the services we provide

Inspire confidence in our stewardship in our customers and tax payers

The 7 Principles of Risk Management at Fareham Borough Council

The basic principles in which risk management operates at the Council are summarised below:

1. Risk Ownership in Services

- Risks are owned at the service level.
- Identifying and managing the risks of a service is an integral part of managing the service. This includes horizon scanning to identify new and changing risks and opportunities.
- Every service, system and project has an owner with responsibility for it.
- The owner for most risks is usually clear from the roles and responsibilities in the service.
- Managers make sure that employees are well briefed and actively involved in identifying and understanding risks and determining the actions they need to take to contribute to the management of risks.
- This means everyone should work to understand and remove the things that impede achievement of their purpose.

2. Competent and Responsible Employees

- We employ competent and responsible managers and employees.
- This is underpinned by strong recruitment and performance management processes and, where necessary, corrective action.
- We trust managers to manage well which includes the identification and management of risk and opportunity in their service area.
- We trust employees to carry out the actions required of them to mitigate risks.
- It is incumbent on all to be:

  a) proactive in giving confidence to others that key risks are being managed effectively, by using appropriate reporting and assurance methods.

  b) proactive in obtaining assurances from others involved in carrying out actions which help manage risks for which they are responsible.

3. Experts Pulled in to Advise

- Service managers who need help to manage specific risks pull in experts when required.
- This could also involve having a conversation with a senior manager or fellow manager who has been in a similar situation.
- Certain risks are cross cutting and also need ownership at a corporate level to lead on translating, learning and providing support and solutions to service managers.
- A list of experts for those risk areas where ownership is not clear from the organisational structure is maintained as Appendix 1 to this policy.

4. Process is supported by Having Conversations

- Further risks may be identified by others (e.g. team members, other managers, legal services, internal audit) which are brought to the service manager's attention by having conversations.
- Further risks may also be identified by having conversations with parties outside of the Council.
- Where ownership for a risk is not clear interested parties meet to agree a way forward.

5. Identifying Opportunities to Share

- The organisation shares information about risks being managed at the service level and identifies common issues that may turn them into cross cutting or corporate risks.
- It is the responsibility of managers to appreciate the roles and responsibilities of other services and when risks and solutions they have identified in their service might be relevant to them, and to bring it to their attention.
- We provide an environment that encourages all employees to feel part of one organisation and to be aware of the full range of services provided by the Council and to notice and pass on information that may be of value to another service. ***(The eyes and ears of the borough)***
- Experts and support services are in an ideal position to appreciate when problems and solutions being identified for one service could be relevant to another. ***(The eyes and ears of the organisation)***

6. Escalation of Issues

- Employees are trusted to identify when issues need to be escalated in order to alert supervisors, managers and senior managers, or so that resources can be diverted to help with the management of the risk.
- The culture of the organisation makes employees comfortable in escalating problems.
- Our aim is to avoid feeding too much detail upwards to allow managers to see the important issues clearly and react quickly.

7. Incident Management and Review

- Incidents are risks that have occurred and are a measure of how well we are achieving our purposes.
- Most Incidents are directly managed by the service or escalated if corporate awareness or support is needed.
- Some incidents may require the lead to be taken by another service, e.g. insurance claims.
- After the incident a review is undertaken to identify any actions that may be needed to prevent recurrence.
- Questions to be asked should include:

  How did it happen, was it predictable, could it happen again, what could we do to prevent it?

- Conversations with Senior Managers take place, as appropriate, to understand incidents and facilitate learning and to provide feedback on actions taken to prevent recurrence.

Other Components of our Risk Management Arrangements

Other components of our governance framework which also assist in the management of risk are:

In particular Horizon Scanning by CXMT and internal audit will assist in identifying responsibility for new areas of risk

Monitoring and Reporting

Level 1 – Managers: Discussions are held with a selection of managers every 6 months to gain assurance that the principles are working in their areas. The conversation includes:

a) Their perceptions of their current top risks
b) Any new or changes in risk/opportunities they have identified

c) Any mitigating actions they have taken recently to strengthen risk management arrangements
d) Any incidents that have occurred and the lessons learnt/ actions taken as a consequence.

Level 2 – CXMT: A summary of these discussions is presented to the Chief Executive's Management Team where further topics being managed at the corporate level are noted. The top risks at the corporate level are agreed.

Level 3 – A&G: The top risks and incidents in the period are then presented to the next Audit and Governance Committee. Where appropriate, the manager involved in managing a key risk/incident also attends the Committee.

Annual Assurance on Arrangements

The Chief Executive's Assurance Group carries out an annual review of the effectiveness of the framework for identifying and managing risks and for performance and demonstrating accountability.

This includes a review of the Head of Internal Audit annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

Maintaining the Policy

This policy is not expected to be a static document and will be updated as implementation of the arrangements identifies a need for clarification, revision or expansion.

Appendix 1

Risk Leads/Experts for Cross Cutting Risks

Risk Subject	Risk Lead
Data Protection	Head of Democratic Services
Information Security	Head of Personnel and IT
Emergency Planning and Business Continuity	Head of Parking and Enforcement
Fraud and Corruption	Head of Finance and Audit
Governance	Head of Finance and Audit
Procurement	Head of Democratic Services (process) Fareham's Solicitor to the Council (compliance with the law)
Health and Safety of Employees	Head of Environmental Health
Health and Safety of the public	Relevant Head of Service in conjunction with Head of Environmental Health
Partnerships	Head of Corporate Services
Safeguarding	Head of Environmental Health
Trees	Head of Development Management

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 November 2021**

Report of: **Deputy Chief Executive Officer**

Subject: **PREVENTION OF FACILITATION OF TAX EVASION**

SUMMARY

Part 3 of the Criminal Finances Act 2007 creates a Corporate Criminal Offence (CCO) of failure to prevent tax evasion by an associated person, either in the UK or Oversees.

An ongoing programme of works is being undertaken to ensure that the Council complies with the requirements of this act, including the approval of a Preventing Facilitation of Tax Evasion Policy.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee approve and endorse the Prevention of the Facilitation of Tax Evasion Policy, attached as Appendix A to the report.

INTRODUCTION

1. Tax evasion is the illegal non-payment or under-payment of taxes, usually as a result of making a false declaration (or no declaration) of taxes due to the relevant tax authorities, which results in legal penalties if caught.

2. Part 3 of the Criminal Finances Act 2007 creates a Corporate Criminal Offence (CCO) if organisations fail to prevent tax evasion when delivering services and transactions. This could lead to an unlimited financial fine.

3. Only two things need to happen for the Council to be guilty of committing an offence: a fraud is committed, and it is facilitated by someone associated with the Council. An associated person can be an employee, agent or persons who perform services on behalf of the Council.

4. HM Revenue and Customs (HMRC) can at any time undertake a Business Risk Review and rate the FBC response to the CCO.

5. An organisation will have a defence to this CCO if it can show it has in place a set of prevention measures which give due recognition to the six core principles identified by HMRC; risk assessment, proportionality of risk-based prevention, top level commitment, due diligence, communication and training and monitoring and review.

6. A review has therefore been carried out as part of the Internal Audit Plan to identify and start delivering the actions that are needed to confirm we have the appropriate proportional prevention procedures in place.

ADOPTION OF AN OVERARCHING POLICY

7. The Council has started a programme of works to document and strengthen processes in areas of tax that are perceived to be the highest risk; Value Added Tax (VAT), Construction Industry Scheme (CIS), PAYE, Off Payroll Working (IR35) and Grants.

8. The first milestone of this work has been to draft an overarching Prevention of the Facilitation of Tax Evasion Policy which sets out the commitment to taking actions to prevent CCO which are proportionate to the risk the Council is exposed to.

9. The policy, as attached as Appendix A, sets out the following in relation to tax evasion:

    - The definition of tax evasion, and how it differs to tax avoidance and measures staff can undertake to prevent it.

    - Prevention procedures the Council has in place that give due recognition to the six core principles identified by HMRC: risk assessment, proportionality of risk-based prevention, top level commitment, due diligence, communication and training and monitoring and review.

- The key areas of tax risk identified by the Council, with examples of how tax evasion could be facilitated.

- Employee responsibilities in relation to preventing the facilitation of tax evasion, with guidance on how to raise any concerns.

10. It is therefore recommended that the Committee approves the Policy as a supplementary document to the Council's Financial Regulations. It is also recommended that the Committee are added as providing top level committment for the Policy.

OTHER ACTIONS COMPLETED AND PROPOSED

11. The Council's VAT Officer is maintaining a log of the annual and ad-hoc actions being taken to confirm procedures are being adhered to and to strengthen arrangements as deemed appropriate.

12. Key actions that have been delivered include:

- Identification of key inter-authority working groups and their role in keeping officers up to date in tax rules and procedures

- A risk assessment has been compiled and is updated as new risks and mitigations are identified

- Appropriate questions and terms are included in the procurement process

- An Annual Tax working group has been set up to carry out an annual review against the CCO risks

- Training has been held for all GPC card holders, to inform them about the CCO responsibilities, and how to correctly account for VAT

- A new process has been introduced in which the VAT Officer obtains assurance on the VAT numbers quoted for new suppliers.

13. Further actions planned include further training and awareness sessions for targeted groups who are key to preventing the facilitation of tax evasion, and the introduction of an annual update to the Section 151 Officer.

RISK ASSESSMENT

14. Failure to demonstrate reasonable measures to prevent the facilitation of tax evasion carries a reputational risk for the Council. If an act of tax evasion, or the facilitation of tax evasion was found at the Council, the Council would be liable for an unlimited fine.

CONCLUSION

15. The Council already has measures in place to prevent the facilitation of the tax evasion, which are now being strengthened by the action plan that has been developed.

16. The adoption of the Prevention of the Facilitation of Tax Evasion Policy is one action to strengthen the arrangements and will demonstrate the Council's commitment to measures designed to prevent the facilitation of tax evasion by the Council or of persons associated with the organisation.

Appendices:

Appendix A – Prevention of the Facilitation of Tax Evasion Policy 2021

Background Papers: None

Reference Papers: Part 3 of the Criminal Finances Act 2007

Enquiries:

For further information on this report please contact Kimberley Churchill, Finance Business Partner (Ext 4331)

Appendix A

Preventing Facilitation of Tax Evasion


Source: HM Revenues & Customs

Version 1 – November 2021

FAREHAM
BOROUGH COUNCIL

1. Background

Under the Criminal Finances Act 2017, the Council, if found to be facilitating tax evasion, could face an unlimited fine and consequent damage to its reputation. The Council will be guilty of the offence where a third party commits tax evasion, which a member of staff (or an associate) has some way assisted.

2. Policy Statement

The Council aims to conduct its financial affairs in a law-abiding way and does not tolerate either the commitment or facilitation of tax evasion.

The Council already has a range of policies, procedures and guidance that underpins its financial activities.

To prevent tax evasion, Council staff (and associates, so far as relevant) should:

- Always follow Council policies, procedures and guidance;
- Tell management if any criminal activity is suspected;
- Attend any appropriate training offered.

Specifically, staff and associates must not knowingly do anything that helps someone else evade tax.

Note in this context that the Council is only responsible for the actions of associates in respect of things they do for, or on behalf of, the Council. Other than this the Council is not responsible for the way associates manage their business.

2. Legislation

Part 3 of the Criminal Finances Act 2007 creates the Corporate Criminal Offence of failure to prevent tax evasion. Allegations of the Offence are investigated by HM Revenues and Customs (HMRC).

Tax evasion is the illegal non-payment or under-payment of taxes, usually as the result of making a false declaration (or no declaration) of taxes due to the relevant tax authorities, which results in legal penalties if the perpetrator is caught.

Tax avoidance, by contrast, is seeking to minimise the payment of taxes without deliberate deception. This is often legitimate but is sometimes contrary to the spirit of the law, e.g. involving the exploitation of loopholes. Importantly the corporate criminal offence of facilitation only applies to tax evasion. The third party must be found guilty of tax evasion before the Council can be found to have facilitated it.

3. Defences

It is a defence to the Corporate Criminal Offence of facilitating tax evasion if the Council can prove that it has in place such prevention procedures as it is reasonable to expect in the circumstances.

Government guidance suggests an appropriate set of prevention measures which gives due recognition to the following:

- Risk assessment
- Proportionality of risk-based prevention
- Top level commitment
- Due diligence
- Communication (including training)
- Monitoring and review

The Council recognise the following groups as key in understanding the risks of the facilitation of tax evasion and carrying out activities to mitigate risk and so will ensure they are kept up to date with this policy:

- Finance Business Partners
- Internal Audit
- Exchequer Team
- Purchase Desks
- P-Card Holders

The Council will ensure a policy on prevention is brought to the attention of all staff, and it will be published as a Financial Regulation Support Document, linked to Financial Regulation 20 - Taxation. This will also be published on the Fareham Borough Council Internet site under Corporate Governance and Standards.

4. Obligation of staff & contractors

Staff and associates are reminded that they are always required to abide by the Council's policies, procedures and guidance, this includes the responsibility to avoid the facilitation of tax evasion.

Failure to comply with these policies, procedures and guidance, including failure to comply with the obligations detailed in this policy, may result in disciplinary action for staff and the termination of arrangements with associates.

Should staff or associates be concerned that another employee or associate is facilitating a third party's tax evasion, they should report this to their manager. The report a concern policy can also be engaged.

5. Risk Assessment

The Council will assess the nature and extent of its exposure to the risk of those who act for or on its behalf engaging in activity during the course of business to criminally facilitate tax evasion, analysing whether they have the motive, opportunity and means to do so and how that risk might be managed, and will keep these risks under review.

6. Areas of risk

The Council recognises the following 5 areas of risk:

- VAT
- Construction Industry Scheme
- PAYE
- Off Payroll Working
- Grants

These are discussed in more detail below with the main examples of how tax evasion can be facilitated.

6.1 Value Added Tax

Tax evasion occurs where suppliers add VAT to their invoices when they are not registered for VAT. Payment would be made to the supplier and recovered from HMRC. The expense would not fall as a cost to anyone's budget so would be difficult to spot.

The same issue would happen when paying fraudulent VAT only invoices. The expense would not fall as a cost to anyone's budget as the money would be recovered from HMRC.

Both instances would have to be in collusion with officers for there to be an offence of assisting a third party in criminal tax evasion.

6.2 Construction Industry Scheme

The risk exists of suppliers submitting artificially low labour breakdowns on their invoices to avoid tax being deducted on the labour element or no tax being deducted at all.

A lack of understanding as to what work comes within the scope of the scheme or the implications of not applying the scheme.

In both instances the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

6.3 PAYE – Income Tax/ National Insurance (NI)

This is failure to deduct the tax and NI at the correct rate. For example: a manager agrees to allow one of their staff to claim home to work travel through an expense claim.
However, knowing that it is against Council policy and to help their member of staff from having to pay tax, which is properly due, they allow their staff member to describe the claim as travel away from the office.

The manager is knowingly allowing a member of staff to provide false information to evade tax and is thus committing an offence of assisting criminal tax evasion. By supplying false information in this way, the Council employee is committing a criminal offence as they have assisted a third party in criminal tax evasion.

Another example would be a member of staff is rewarded by way of a gift voucher over and above HMRC trivial gift limits (currently £50). This could be seen to be a deliberate form of reward to avoid tax liabilities.

6.4 Off payroll working – IR35

Facilitation of tax evasion occurs if the Council fails to identify workers and associates that should be paid via the payroll system rather than the creditors system.

A supplier wishes to be treated as a self-employed contractor so that payments to them are paid gross and they can evade paying the appropriate income tax and national insurance liabilities. The Council officer helps the supplier by falsifying information on the Employment Status Questionnaire.

By supplying false information in this way, the Council employee is committing a criminal offence as they have assisted a third party in criminal tax evasion.

6.5 Grants

Facilitation of tax evasion occurs if the Council fails to ensure that grant funding is used for its intended purpose.

The Council gives a grant to an organisation for a specific project or service which may include the employment of staff. Staff are paid without the appropriate deduction of Income Tax and National Insurance.

The Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

Another example is if the Government gives a company or an individual worker a grant to compensate for loss of income during the COVID 19 pandemic. The Council would facilitate tax evasion if they knowingly employed the company or individual receiving the grant during the period the grant covers.

7. Proportionality of risk-based prevention procedures

The Council has systems of controls in place to address specific risks and to ensure regularity. The Council seeks to design those systems of controls to be proportional to the risk being mitigated. The Internal Audit Team review the design and compliance of the systems of Internal Control as part of annual audit plan on a rolling basis. The Council is committed to prevent the facilitation of tax evasion. This is reflected in the governance process and procedures to address specific risks.

The Council has the following policies in place that all contribute to staff awareness and Governance:

- Financial Regulations and Support Documents
- Anti-Bribery Policy
- Anti-Fraud and Corruption Policy
- Report a Concern Policy
- Employees Code of Conduct
- Anti-Money Laundering Policy
- Procurement and Contract Procedure Rules

8.Top Level Commitment

This policy has been endorsed by the Section 151 Officer, the Chief Executives' Management Team and the Audit & Governance Committee.

9. Due Diligence

Reasonable care and caution is exercised when processing all transactions particularly high value/high risk area payments in the creditor and payroll systems. The VAT Officer undertakes additional monthly checks on high value VAT transactions. Regular monitoring takes place and caution is exercised when making payment to new suppliers.

10.Communication & Training

All staff, especially those involved in processing and approving financial transactions, will be made aware of this policy as part of the Council's Financial Regulations. Additional briefings will be undertaken for the key groups identified above.

The reporting process for anyone who may have concerns that either tax evasion or the facilitation of tax evasion offences may have been committed are as follows:-

report directly to individual's line manager, or email internalconcern@fareham.gov.uk or complete the online form.

11.Monitoring & Review

Monitoring and reviews will form part of audit programmes with regular reports back on any findings to the Section 151 Officer.

The Council will maintain an ongoing action summary list, detailing actions being taken and to be taken, this will be kept up to date throughout the year as additional actions are identified. This will be discussed annually with members of the Tax Working Group with any significant issues being escalated to the annual S151 meeting.

12. Further Information

Further information can be obtained by contacting Council's VAT Officer.

Agenda Item 9

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 November 2021**

Report of: **Head of Finance and Audit**

Subject: **INTERNAL AUDIT PROGRESS REPORT**

SUMMARY

This report provides the assurances arising from the latest internal audit work and gives an update on the progress being made with delivering the audit plans.

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

a) to approve significant interim changes to the internal audit plan and resource requirements;

b) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations;

c) to consider reports from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services. These will include:

- *updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.*

d) to receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be inacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

2. We are still being affected by some loss of resources due to sickness and additional work arising from the pandemic. However, work on the delivery of the plans is now starting to progress.

PROGRESS OF THE 2021/22 AUDIT PLAN

3. Work has started to deliver the 2021/22 plan, as noted in Appendix Two, such that 14 of the 23 planed audits have now commenced. Five of these have now been completed and a further 8 have reached Stage 4 - The Auditor has started to deliver the agreed scope of work.

4. We have also started work on one of the reserve audits as it was relevant to another planned piece of work.

FINALISING PREVIOUS AUDIT PLANS

5. Updates are given for the 6 remaining audits from the previous Audit Plans as detailed in Appendix One. In particular progress continues to be made in relation to reviewing the outstanding audit recommendations on the audit database where they relate to the Finance Team and the implementation of the new finance system.

FINDINGS FROM COMPLETED AUDITS

6. The 5 final reports that have been issued since the last report are listed below, with the opinions given and number of recommendations made:

Audit	Assurance Opinion	Recommendations Made		
		New Essential	New Important	Outstanding Previous Essential or Important
Cyber Security	Strong	-	-	-
Accounts Payable	Strong	-	1	-
Trade Waste and Recycling	Strong	-	3	-
Tell Us Once Follow Up	N/A	-	3	-
Prevention of the Facilitation of Tax Evasion	N/A	-	-	-

7. A collaborative audit with the Finance team to review the Council's policy and procedures to prevent the facilitation of tax evasion has been completed as detailed in the table above. There is a separate paper relating to this which will be included as an item for this Audit and Governance Committee meeting.

RISK ASSESSMENT

8. There are no significant risk considerations in relation to this report

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two – Audits in the 2021/22 Plan

Appendix Three - Findings from the Latest Completed Audits

Appendix Four – Reference Tables

Background Papers: None

Reference Papers:

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on the Contractor Annual Audit Plan 2014/15

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

Report by the Head of Finance and Audit to the Audit and Governance Committee on 18 March 2018 on the Internal Audit Plan 2018/19

Report by the Head of Finance and Audit to the Audit and Governance Committee on 12 July 2021 on the Internal Audit Plan 2021/22

Enquiries:

For further information on this report please contact Elaine Hammell (Ext. 4344)

APPENDIX ONE

Update on Outstanding Audits from Previous Plans

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work.

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
2014/15			
Information Governance Opinion (Wider piece of work)	5	-	**Audit relying on completion of other Audit Work – Now Targeted for July 2022** This audit will be able to be closed down once the review of all outstanding audit recommendations is commenced and the extract relating to ICT audit recommendations can be produced to feed into the final summary. This has been delayed until later in the 2021/22 plan.
2016/17			
Building Health and Safety Risks (Wider piece of work)	5	-	**Audit Targeted for Completion using Apprentice Resources – March 2022** The draft audit report in 2016/17 generally gave strong assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report. It was originally proposed that the additional apprentice resources would be used to refresh the testing and fill in the gaps to allow the report to be finalised. However, due to other priorities it has not yet been possible to start this work. There has been some discussion of thte topic as part of the risk management review which has again provided some assurance on the management of these risks.
2017/18			
Commercial Estates (Opinion audit)	8	15	**Audit Targeted for Completion – Now targeted for March 2022** The draft audit report in 2017/18 generally gave reasonable assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report, and some inaccuracies needed correcting. In the meantime, some of the issues have been addressed by the Finance Service. It is therefore proposed that a revised draft report is still produced and discussed with the new manager of the service to allow the report to be finalised by the March Committee.
2018/19			
Write Offs History Analysis & Interest charges (Wider piece of work)	5	-	**Audit Targeted for Completion – Now targeted for June 2022** A considerable amount of work has been carried out on this audit which was fed into the changes proposed to Financial Regulations at the September 2020 Committee. There are some parts of the analysis that need completing. Some subsequent testing has been picked up in the 2020/21 audit of Account Receivable. We have also started to discuss the results with managers and improve on some processes. This will also be picked up in the implementation of the new finance system.
Housing Options Debtors (Wider piece of work)	8	-	**Audit Targeted for Completion – Now targeted for March 2022** This second draft of this report has now been produced and is just waiting review and discussion with the service to allow the final report to be produced. Some interim discussions have taken place.

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
Review of all other outstanding audit recommendations (Wider piece of work)	4	-	**Audit Targeted for Completion – September 2022** There has been some progress on this project following the work carried out in 2020/21. We are also targeting 2 large groups of recommendations as part of planned work in 2021/22 (finance team's recommendations and vehicle purchasing). Work on the finance team recommendations is also underway and is being delivered alongside the review of the new financial system.

* A key to the information in this column is given in Appendix Four

APPENDIX TWO

Audits in the 2021/22 Plan

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included		New Recommendations		Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS												
Local Tax Collection (1219)	**4**	15										
Accounts Payable (1220)	**10**	15	**Strong**	⇔ 18/19	November 2021	Y	-	1	-	-	-	-
Fixed Assets (1221)	**4**	10										
Vehicle Maintenance ordering, invoice management and stock control (1222)	**Not Started**	15										
SERVICES AND SYSTEMS – High Risk												
Sheltered Housing (1223)	**4**	15										
Parking Charges (1224)	**Not Started**	15										
Trade Waste and Recycling (1225)	**10**	12	**Strong**	⇔ 16/17	November 2021	N	-	3	-	-	-	-
Planning Applications - Nitrate Offsetting (1226)	**Not Started**	10										
SERVICES & SYSTEMS – Other												
Service charges and recharges – Leaseholders (1230)	**Not Started**	15										
Car loans (1231)	**4**	10										
COMPUTER AUDITS												
Security and Use of DWP data services (1227)	**Not Started**	8										
Housing Civica System - post implementation review (1228)	**Not Started**	15										
Cyber security during Lockdown (1229)	**10**	10	**Strong**	N/A	November 2021	N	-	-		-	-	-

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included		New Recommendations		Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FOLLOW UP												
Housing Voids - Follow Up (1232)	**4**	5										
WIDER WORK												
Procurement transaction testing (1233)	**Not Started**	12										
Tell us once follow up (1234)	**10**		**N/A**	N/A	November 2021	N	-	3	-	-	-	-
Covid Grant Certifications (1235)	**1**											
Prevention of the Facilitation of Tax Evasion (1236)	**10**		**N/A**	No previous Audit	November 2021	-	-	-	-	-	-	-
Anti-Bribery Arrangements (1237)	**Not Started**											
Contract Management (1238)	**Not Started**											
Targeted Assistance with Recommendation Implementation - Finance Recommendations (1239)	**4**											
New finance system implementation - audit sign off (1240)	**4**											
Business rates and council tax refunds (1241)	**4**											
Totals		182										
RESERVE AUDITS												
The Council's Covid Response	**Not Planned**		**-**	**-**	-	-	-	-	-	-	-	-
Commercial rents and the Covid response	**Not Planned**		**-**	**-**	-	-	-	-	-	-	-	-
Information flow in the Business Rates team	**Not Planned**		**-**	**-**	-	-	-	-	-	-	-	-
Social Media Monitoring by services Follow Up	**Not Planned**		**-**	**-**	-	-	-	-	-	-	-	-

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included		New Recommendations		Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Sheltered housing safe spot checks	**4**		**-**	**-**	-	-	-	-	-	-	-	-
Pre-application advice cost comparison to income	**Not Planned**											

* A key to the information in this column is given in Appendix Four

APPENDIX THREE

Findings from the Latest Completed Audits

Audit Title	**Cyber Security**
Report Number	**1229**
Year of Audit	**2021/22**
Type of Work	Opinion audit
Assurance Opinion Given	**Strong**
Direction of Travel	No Previous Audit
Errors Found	No

Overview of Subject: Due to the COVID19 pandemic there has been a substantial increase of users that had to work from home. Users can access the Authority's network remotely and two thirds of those also have a corporate mobile device in order to access emails. To support functionality and integrate the Authority's applications into cloud-based products, ICT have begun migrating users to a system that is more compatible with the conferencing software, which has been integral to the work from home structure and has a better functionality.

The purchase of the package provides additional security features for cloud-based products and allows ICT to configure firewalls to protect the Authority's network from cyber-attacks and external threats that are prevalent in remote access due to users using their own internet service providers.

Cyber Security is integral to keeping the Authority's network and members of the public's information safe and secure from external threats. This service is managed by ICT with officers responsible for monitoring the traffic entering and leaving the Authority's network via firewalls and anti-virus filtering software.

There were no issues arising from this audit.

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚐)	Implemented	Cancelled	Not Implemented
Network Security			-	-	-	-	-	-
Applications			-	-	-	-	-	-
Encryption			-	-	-	-	-	-
Access Points			-	-	-	-	-	-

Audit Title	**Accounts Payable**
Report Number	**1220**
Year of Audit	**2021/22**
Type of Work	Opinion audit
Assurance Opinion Given	**Strong**
Direction of Travel	⇔2018/19
Errors Found	Yes

Overview of Subject: The Authority received 25,391 invoices with a value of £282,056,848 between September 2020 and August 2021. Payment of invoices is managed through a two-tier authorisation process including line managers and finance officers. The service dealt with 5,471 unique suppliers in the year reviewed.

As a result of the COVID-19 Pandemic, an 'Emergency Finance Measures – Paying Invoices' process was introduced to allow invoices to be processed and authorised by employees working from home using an electronic work-flow process. Although these were introduced as emergency procedures, the Finance Team expects the measures to remain in place for the foreseeable future as the Council moves towards a more digital and hybrid way of working and prepares for the new electronic invoicing process to be implemented as part of the new finance system.

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential (💣)	Important (▲)	Advisory (⚐)	Implemented	Cancelled	Not Implemented
Approval of Purchase Orders and Yellow Sticker Payments			-	-	-	-	-	-
Goods Receipting and Invoice Payments			-	-	-	-	-	-
Coding of Expenditure			-	-	-	-	-	-
Reconciliation of Invoice Batches and Payment Runs			-	-	-	-	-	-
New Suppliers and Supplier Bank Account Changes			-	-	-	-	-	-
Duplicate Invoice Detection			-	1	-	-	-	-
Payment via BACS			-	-	-	-	-	-
Manual and Urgent Payments			-	-	-	-	-	-
Aged Creditor Management			-	-	-	-	-	-

Control of POPS Advances			-	-	-	-	-	-
Credit Balances			-	-	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	Data matching carried out during the audit identified a small number of potential duplicate invoices of low value. These have been notified to the relevant departments for further investigation and action if required.

Audit Title	**Trade Waste**	**Overview of Subject:** Local Authorities do not have a statutory obligation to collect commercial waste. However, powers given under the Local Government Act permit them to provide a trade waste service and to generate income from it. The trade waste service being operated by Streetscene has been in place for approximately 40 years and provides trade waste collection for local companies in Fareham, Gosport and some areas of Portsmouth. As of September 2021, the service had collection agreements with approximately 1,000 companies.
Report Number	**1225**	
Year of Audit	**2021/22**	
Type of Work	Services and Systems - High Risk	
Assurance Opinion Given	**Strong**	
Direction of Travel	2016/17	
Errors Found	No	

Areas of Scope	Adequacy and Effectiveness of Controls		New Recommendations Raised			Previous Rec Implementation (E and I only)		
			Essential	Important (▲)	Advisory	Implemented	Cancelled	Not Implemented
Collection Management			-	1	-	-	-	-
Payments & Invoices			-	-	-	-	-	-
Customer Relations			-	1	-	-	-	-
Customer Management			-	-	-	-	-	-
Debt Collection			-	-	-	-	-	-
Marketing & Income			-	-	-	-	-	-
Pricing Structure			-	1	-	-	-	-

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Route Efficiency -** Routes are currently determined by officers within the service and as such there has not been an independent expert review of the route collections. The completion of this exercise could increase efficiency whilst reducing cost. It could also assist with the rising demand for these services from local businesses, which is increasing annually. The trade waste collection routes will now be reviewed by April 2022.
Important	**Customer Satisfaction -** The audit found that a survey to gauge customer satisfaction with the trade waste service had not been undertaken for some time. As a result, there is no clear data to indicate what customers are valuing in the service and what they are unhappy with. Therefore, it was agreed that as part of an ongoing review a survey would be created and distributed to the service's customer base early next year.
Important	**Pricing Review** - An analysis of income and a report provided by the Project team, following a review of the service's financial performance, found that the service continues to operate on a profit on a yearly basis. However, the profit margin is falling each year due an increase in operating costs. Central Government are in the process of determining a new waste strategy which may require Local Authorities to provide more services for residents which may have a financial impact on the trade waste collection service. It was agreed that a pricing review would be undertaken by April 2022.

Audit Title	**Tell us once follow up**	**Overview of Subject:** The Council is informed of deceased residents via various sources, including the Department of Work and Pensions 'Tell Us Once' service, Hampshire County Council, members of the public, relatives, and solicitors. In a review carried out in 2015 it was found that the different departments, within the council, dealing with deceased notifications were following a manually intensive system, which on occasion resulted in duplicated efforts, and some notifications that were not shared with other departments. This was followed up in 2019/20. Further changes to the process have been reviewed and included in this follow up.
Report Number	**1234**	
Year of Audit	**2021/22**	
Type of Work	Thematic review	
Assurance Opinion Given	None Given	
Direction of Travel	N/A	
Errors Found	N/A	

Weaknesses identified during the audit and the proposed action (Essential and Important only)	
Important	**Sources of Information** - Death notifications are received by several methods to various officers within the Council. All teams will be reminded to complete an online form if a death notification is received from a non – Tell Us Once channel. This form will then be emailed automatically to each department's general email account in order that their records can be updated promptly. The Online form will also be used for all other changes in circumstances by officers.
Important	**Communication of the Current Process –** To ensure everyone understands what procedures should be followed upon receipt of a death notification, the PR and Marketing Team will publish a summary of the new process on the Council's intranet.
Important	**Spot checks -** The Local Tax team will carry out Spot checks of the Hampshire County Council deceased persons list to ensure that the Tell Us Once service is capturing all notifications.

APPENDIX FOUR

Reference Tables

Scale of Assurance Opinions

Strong	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	There is basically a sound system of internal control, but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Scale of Recommendation Priorities

Essential	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
Important	A significant control weakness where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
Advisory	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

Stages of An Audit Assignment

Stage 1	The Audit teams have started drawing up the scope of coverage for the assignment.
Stage 2	A scoping meeting has been held with the Sponsor in the client service.
Stage 3	The Terms of Reference for the Assignment have been issued.
Stage 4	The Auditor has started to deliver the agreed scope of work.
Stage 5	A first draft of the report has been received by the Support Officer to be reviewed.
Stage 6	Any additional testing identified has been completed.
Stage 7	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
Stage 8	The draft report has been received by the in-house audit team.
Stage 9	The draft report has been issued to the Service Sponsor and is awaiting their response.
Stage 10	The final report has been issued.

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 November 2021**

Report of: **Deputy Chief Executive Officer**

Subject: **ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS**

SUMMARY

This report sets out the proposals for appointing the external auditor to the Council for the second appointing period commencing 1 April 2023. This will span five years and covers the Core Audit work, which includes the audits of accounts for the financial years 2023/24 to 2027/28.

The current external auditors, Ernst & Young were appointed from 1 April 2018 following the Council's decision to opt-in to the joint tender process organised by Public Sector Audit Appointments (PSAA) as a recognised 'appointing person'. A similar option is available for the next appointment.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee recommend to Full Council that the Council accepts Public Sector Audit Appointments (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023.

INTRODUCTION

1. The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to now make their own decisions about how and by whom their external auditors are appointed.

2. One option available under Regulations made under the Act allows authorities to 'opt in' to having their auditor appointed by an 'appointing person'.

3. In July 2016 Public Sector Audit Appointments (PSAA) were specified by the Secretary of State as an 'appointing person'. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). The appointing person is sometimes referred to as the "Sector Led Body" (SLB). PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State.

4. PSAA is now inviting the Council to opt-in to the next joint tender and appointment process for the external auditors for the 5-year period running from 1 April 2023. This will allow PSAA to invest resources into carrying out a national tender process and enter into a number of contracts with appropriately qualified audit firms, including appointing a suitable firm to be this Council's auditor.

5. This appointment will cover the Core Audit work but excludes the audit of the Benefit Subsidy claim which is subject to a separate appointment.

6. The decision to opt-in to the appointing process can only be taken by Full Council and has to be made by 11 March 2022. However, members of the Audit and Governance Committee are invited to forward their preferred recommendation to Full Council to consider.

CURRENT ARRANGEMENTS

7. **Tender Process:** The current external audit contract was the first time the new arrangements were used and covers the period from 1 April 2018 to 31 March 2023. The Council did opt-in to use PSAA to appoint their auditors for this contract, along with 480 (98%) of other bodies eligible to join the national scheme.

8. The SLB tender process started in April 2017 and was organised across 6 lots of decreasing size with different firms winning each lot. Fareham Borough Council was allocated to lot 2 (second largest) which was won by Ernst & Young LLP. They are consequently our current auditors.

9. **Audit Fees:** The table below shows the history of the external audit fees paid over the last 5 years. This highlights that although the tendered scale fee would have delivered a saving to the Council, in line with government expectations, some of the savings have been lost through variation fees charged.

			New contract starts		
Fees	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Original Core Audit cost - Scale Fee	£48,230	£48,230	£37,137	£37,137	£37,137
Variations Proposed	£1,500		£1,408	£32,578	£30,303
Variations Paid / To Pay	£1,500		£1,127	£19,944	To be confirmed
Total cost	**£49,730**	**£48,230**	**£38,264**	**£57,081**	

10. Variation fees are charged when the auditor considers they have had to carry out work over and above the level specified in the tender. In particular, this may arise as a result of the Government specifying additional changes to the Audit regime.

11. One of the roles of the PSAA is to consider and approve/reject requests for fee variations from the auditor, having also taken on the views of the local authority. The table shows that some of the fees proposed were reduced when reviewed by PSAA, but the majority were upheld.

12. **Audit Quality:** We have no concerns over the quality of the audit service being delivered under the current contract. However, members will be aware that the statutory deadline for the audit opinion on the 2020/21 Statement of Accounts has not been met. This was the first year that the deadline was missed for this Council.

13. Nationally there has been an increasing trend in Auditors from all firms not meeting the statutory deadline, with 87% of opinions given on time in 2018, 57% in 2019 and only 45% in 2020. The Fareham Borough Council opinion was delviered on time in all these years.

NATIONAL EXTERNAL AUDIT LANDSCAPE

14. Nationally there has been significant debate in recent years about the external audit industry in both the public and private sectors which have led to four independent reviews being commissioned by Government.

15. The last of these, the Redmond review, looked specifically at local authority financial reporting and external audit. The conclusions from the report issued in September 2020 was that the local audit market was fragile and the fee structure was not enabling auditors to fulfil the role in an entirely satisfactory way. The ambition to attract new audit firms to the local authority market had not been realised and there was a significant risk that firms will withdraw from the local government market.

16. The Ministry of Housing Community and Local Government have responded to the review and a number of reforms have been proposed. However, PSAA recognise that the procurement process for the next round of appointments will need to be carried out in the context of the following “big issues” still affecting local government audit:

- The audit industry is under heavy scrutiny.
- There is great regulatory pressure to improve audit quality.
- Audit resources are stretched, and other factors cause delay.
- Delayed local audit opinions are a huge unresolved concern.
- Local government audit's focus is being questioned.
- Additional work means additional fees are needed.
- Regulations need updating.

17. Public Sector Audit Appointments have developed a scheme prospectus for the next round of appointments highlighting some of the actions they have taken / will take to mitigate the risks above. In particular, they have a number of proposals to support market sustainability and encourage additional capacity into the market, given that the current legal requirement is that local audit work has to be undertaken by firms registered by the Institute of Chartered Accountants of England and wales (ICAEW).

18. Councils were invited to comment on the scheme prospectus and this Council submitted their response in July 2021.

OPTIONS FOR THE NEXT APPOINTMENT

19. The Council has 3 options when appointing the next external auditors.

Option A - Make a standalone appointment

This will involve the Council carrying out its own procurement process to evaluate and award the contract to an appropriate firm.

In order to do this the Council will need to set up an Auditor Panel to select the winning firm.

The members of the Panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit.

Option B - Carry out a joint local procurement

This will involve the Council joining up with other authorities to carry out the procurement approach and to establish a joint Auditor Panel. This will need to be constituted of wholly, or a majority of independent appointees (members). Legal advice will be required on the exact constitution of the Panel having regard to the obligations of each Council under the Act.

It should be noted that the Council has not been approached by any Councils to join in with a joint local procurement. A joint local procurement approach, led by Portsmouth City Council, was used to appoint the current external auditors for the Subsidy Claim Audit in 2018.

Option C - Opt-in to the national scheme managed by PSAA

This will involve the Council being part of the national procurement process undertaken by PSAA who will decide which lot the Council is in and which firm is appointed to that lot.

There is no fee to join the Sector Led arrangements. The audit fees that opted-in bodies are charged by PSAA will cover the costs of appointing auditors.

PSAA Ltd commit to ensure that fee levels are kept to a reasonable level by securing competitive prices from firms and by minimising their own costs. Any surplus funds arising from the scheme are returned to Councils.

The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure. There will be between seven and ten contract lots; sizes to be determined but the largest being 20-25% of the market to reflect a balance of geography and blend of authority types.

Provisional contracts with audit firms are likely to be awarded at the end of June 2022 followed by consultation on the proposed scale of fees towards the end of 2022.

20. The table below summarises the main advantages and disadvantages of each approach. The preferred option is therefore to again opt-into the PSAA national scheme.

Options	Advantages / Benefit	Disadvantages / Risk
A-Stand-alone appointment	This would be a direct one to one arrangement with the firm, including management of fee variations against the contract specification. The Council can choose any firm who applies rather than the winner of the lot into which they are placed. The winning firm will be an independent decision taken just for FBC interests.	The limited marketplace for audit firms with public sector expertise, could result in no new bidders for a stand-alone contract, except those who have limited involvement in this field, which may result in a lower quality audit. The Council will not benefit from any jointly negotiated fee reductions. There are significant resource requirements in creating the specification and running the procurement process. There are significant resource requirements in recruiting and managing the Auditor Panel. (Estimated cost in 2016 of £15,000 plus ongoing expenses)
B-Local Joint Procurement	This gives greater attractiveness to firms for a contract for more than one Council so may encourage more tender submissions. This gives greater opportunity for negotiating economies of scale offered by the larger contract value. This will allow the costs and resources involving in running the procurement exercise and establishing and managing the Joint Audit Panel to be shared.	There may be no other Councils wishing to be part of a joint local procurement. The limited marketplace for audit firms with public sector expertise, is likely to result in no new bidders for a local joint contract, except those who have limited involvement in this field, which may result in a lower quality audit. The choice of winning firm will not just be under the decision of the local FBC panel members. Depending on the other bodies involved the FBC representation on the Panel may be small. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has, carried out work such as consultancy work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted with this Council then the Council may still need to make a separate appointment. Likewise, the Joint Panel may not want to choose the best option for FBC as they have other conflicts to consider. There will still be resource requirements and costs in supporting the joint procurement and recruiting and managing Fareham's representatives on the Joint Auditor Panel.

C-Opt-In to PSAA national scheme	This approach is the most likely to secure quality bids from competent firms so that an appointment can be made. This approach is expected to achieve the best value for money in terms of the appointment and scale fees paid based on the economies of scale that will be achieved by the size of the contracts being offered. There are few costs and resource implications as the procurement process will be designed and implemented by PSAA. Other benefits, according to PSAA in their invitation to opt in, are attached as Appendix A.	There will be no local input into the firm chosen for the Council and the scale fee to be paid. (However, the Council does not have to accept the firm chosen for them). The scale fee paid for the Auditor work will include an element for the cost of the procurement and oversight processes. The Council will not have a direct relationship with the supplier and any contract or fee variation negotiations will ultimately be decided by PSAA.

RISK ASSESSMENT

21. The principal risks are that the Council fails to appoint an auditor in accordance with the new framework or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting-in to the sector let approach through PSAA.

    If the Council fails to appoint a local auditor, under Section 12 of the Local Audit and Accountability Act, the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

22. The residual risks are that the external auditor fails to deliver the statutory opinions in the required timescales, or to the required standard, and/or the cost of the external audits continue to escalate. These are likely to be national risks rather than local risks and none of the options offer full mitigation for these risks.

23. There is an expectation that the drive for greater audit coverage in the statutory framework will mean that fees will increase in the second appointing period.

Appendices

Appendix A – Extract from the Public Sector Audit Appointments Limited (PSAA) Invitation - Benefits of the Opt-in Option

Background Papers:

Fareham Borough Council's response to the PSAA Consultation in July 2021 – Help us shape the national scheme for local auditor appointments from April 2023

Public Sector Audit Appointments Scheme Prospectus 2023 and beyond, published 22 September 2021

Public Sector Audit Appointments Invitation to opt into the national scheme for auditor appointments, September 2021

Reference Papers:

Local Audit and Accountability Act 2014

Local Audit (Appointing Person) Regulations 2015.

National Audit Office Report 2020 – Timeliness of local auditor reporting on local government in England

Local authority financial reporting and external audit. Independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities

Report to Audit and Governance Committee on 28 November 2016 – New arrangements for the appointment of external auditors from April 2018.

Report to Council on 15 December 2016 – New arrangements for the appointment of external auditors from April 2018.

Report to Audit and Governance Committee on 15 March 2017 – Update on the new arrangements for the appointment of external auditors.

Report to Audit and Governance Committee on 27 September 2017 – Update on the new arrangements for the appointment of external auditors.

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

Appendix A

Extract from the Public Sector Audit Appointments Limited (PSAA) Invitation - Benefits of the Opt-in Option

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **22 November 2021**

Report of: **Monitoring Officer**

Subject: **REVIEW OF WORK PROGRAMME**

SUMMARY

This report reviews the current work programme for the Committee.

RECOMMENDATION

It is recommended that the Audit and Governance Committee approve the work programme for the rest of the municipal year, as shown in Appendix A to this report.

INTRODUCTION

1. This report brings the latest work programme for review by the Committee.

WORK PROGRAMME 2021/22

2. The progress on the work programme for the year is shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme.

3. There have been a number of changes to the programme approved in the September 2021 meeting.

4. The main change is a delay to the **External Audit Results** report being ready for publication; albeit the field work has been delivered to the timetable that had been proposed. In order to accommodate the delay, we are planning to have an additional Committee meeting in January and will use this meeting to deal with some slippage and extra items to reduce the workload for the March Committee as follows:

   - The **Annual External Audit Report** (including commentary on Value for Money) from Ernst and Young should also be ready for the same meeting.
   - An additional item will be included to cover the review of the current procedures for investigating **Member Code of Conduct complaints**.
   - We have not yet received our 3-yearly **RIPA (Regulation of Investigatory Powers Act) inspection report** although a virtual inspection by the Investigatory Powers Commissioner's Office was carried out in November. This report should therefore be available for the January Committee meeting.
   - Officers have been continuing to review parts of the **Constitution** as time allowed but the work has not yet been completed. This report should, however, be ready for the January Committee meeting.

5. The last change relates to a delayed piece of work updating the Anti-Bribery Policy, Work on this review has not yet commenced and is unlikely to start any time soon. This item will therefore be postponed until the March Committee.

RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report

CONCLUSION

7. The work programme in place is appropriate to meet the responsibilities of the Committee.

Background Papers: None

Reference Papers: Report to the Audit and Governance Committee – 15 March 2021 - Annual Report of the Committee

Enquiries: For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX A

WORK PROGRAMME FOR 2021/22

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	Jan 2022	March 2022
OVERALL PURPOSE AND ACCOUNTABILITY								
Review of Work Programme and training plan		Quarterly	2021-22	Completed	Completed	Completed		**YES, and Annual Report**
Review of the Functions of the Committee		3 yearly	2019-20					
GOVERNANCE, RISK AND CONTROL								
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17					
	Annual Governance Statement	Annual	2021-22	Completed				
Risk Management	Policy	As needed	2016-17					
	Risk Management Monitoring Reports	6 monthly	2021-22		Postponed to November	Completed		**YES**
	Business Continuity	3 yearly	2018-19					
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)					
Value for Money	Specific VFM studies	As needed	None					
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17					
	Anti-Bribery Policy	As needed	2011-12			Postponed		**YES**
	Sanctions and Redress Policy	As needed	2016-17					
	Counter Fraud Annual Report	Annually	2021-22	Completed				
Partnerships	**Partnership Governance Report**	As needed	2021-22		Completed			
AUDIT								

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	Jan 2022	March 2022
Internal Audit	Internal Audit Strategy	3 yearly	2018-19					
	Internal Audit Annual Plan	Annual	2021-22	Completed				**YES**
	Internal Audit Progress Report	Quarterly	2021-22	Completed	Completed	Completed		**YES**
	Head of Audit's Annual Opinion	Annual	2021-22	Completed				
External Audit	**Arrangements for Appointment of External Auditors**	As needed	2021-22			Completed		
	Annual Plan and Fee	Annual	2021-22	Completed				**YES**
	Annual Auditor's Report and VFM commentary	Annual	2020-21				**YES**	
	Annual Certification Report	Annual	2020-21					**YES**
	Specific reports from inspection agencies	As needed	2018-19 (RIPA)		Not available	Not available	**YES,** If available	
FINANCIAL REPORTING								
Statement of Accounts		Annual	2021-22		Completed			
External Audit – Audit Results Report		Annual	2020-21			Postponed	**YES**	
WIDER FUNCTIONS OF THE COMMITTEE								
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16					
	Review of member / officer protocol	As needed	2008-09					
	Review of Member Complaints Procedures	As needed	NEW				**Extra item**	
	Annual Ombudsman Reports and Overview of Complaints against members	Annual	2021-22		Completed			
	Review of Members Training and Development Programme	Annual (New)	2020-21					**YES**

Committee Function and Report Subject		Frequency	Last Covered	July 2021	Sept 2021	Nov 2021	Jan 2022	March 2022
Treasury Management	**Treasury Management Strategy and Indicators**	Annual	2021-22			Completed		**YES - Policy and indicators**
Key Policy Review	**Annual Review of the Constitution**	Annual	2020-21			Postponed	**YES**	
	Review of Financial Regulations	3 yearly	2019-20					
	Review of Procurement and Contract Procedure Rules	3 yearly	2021-22		Completed			
	Prevention of the Facilitation of Tax Evasion	As needed	2021-22			Completed		
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18					
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None					
			Number of Items	7	6	6	5	9