

Tuesday, 16 January 2024

AUDIT COMMITTEE

A meeting of **Audit Committee** will be held on

Wednesday, 24 January 2024

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus,
Torquay, TQ1 3DR

Members of the Committee

Councillor Penny (Chairman)

Councillor Brook (Vice-Chair)

Councillor Steve Darling

Councillor Fellows

Councillor Hutchings

Councillor Long

Councillor Maddison

Together Torbay will thrive

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Governance Support, Town Hall, Castle Circus, Torquay, TQ1 3DR

Email: governance.support@torbay.gov.uk - www.torbay.gov.uk

AUDIT COMMITTEE AGENDA

1. **Apologies**
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 4 - 7)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 13 December 2023.
3. **Declarations of interests**
 - (a) To receive declarations of non pecuniary interests in respect of items on this agenda
For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
 - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda
For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
4. **Urgent Items**
To consider any other items that the Chairman decides are urgent.
5. **Internal Audit - Half Year Report including the outcomes of the Follow Up on Areas Requiring Improvement** (Pages 8 - 33)
To consider a report that sets out the background to audit service provision; any updates to the agreed Internal Audit Plan; a review of work undertaken to date in 2023/24 and provides Internal Audits current opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
6. **Treasury Management Strategy 2024/25** (Pages 34 - 69)
To consider a report on the Treasury Management Strategy 2024/25.

7. **Counter Fraud and Error Update** (Pages 70 - 74)
To note the counter fraud and error update.
8. **Regulation of Investigatory Powers Act (RIPA) Update** (Pages 75 - 76)
To note a report that sets out an update on the Council's use of the
Regulatory of Investigatory Powers Act.

Minutes of the Audit Committee

13 December 2023

-: Present :-

Councillor Penny (Chairman)

Councillors Fellows, Hutchings, Long and Maddison

9. Apologies

Following the decision by Council on 7 December 2023 in respect of political balance, it was reported that the membership of the Audit Committee had been amended by including Councillor Maddison, Prosper Torbay instead of Councillor Bryant, Conservative Group.

Apologies for absence were received from Councillor Brook and Steve Darling.

10. Minutes

The Minutes of the meeting of the Audit Committee held on 26 July 2023 were confirmed as a correct record and signed by the Chairman.

11. Torbay Council Audit Progress Report and Sector Update

Members considered a report that provided an update on progress made by the Council's External Auditors, Grant Thornton, in delivering their responsibilities.

The Audit Manager for Grant Thornton explained that it had been hoped that the 2021/2022 audits of the Statement of Accounts would have been completed this year. Unfortunately, this was not the case, there had been progress and a team had been established and were on site. There had been good progress made on property assets, the main difficulty was the working papers, these papers had been prepared over a year ago by officers who were no longer working for the authority. Therefore, officers were having to try and follow through the processes and reasoning contained in working papers they hadn't prepared which then needed to correspond with the ledger. It was questionable whether officers needed to re-do the working papers in order for Grant Thornton to be able to issue an unqualified opinion. Staff capacity was an issue and officers have been working very hard and fully engaged with the process but were being hampered because of having no involvement with the historical audit.

Members challenged whether the issues reconciling the working papers with the ledger was because of process or presentation. The Audit Manager for Grant Thornton advised that the presentation of the accounts was very technical, but they must be clear about the mapping it was not just about income but where the income

came from and what it was for. The Director of Finance questioned whether redoing working papers for a set of accounts that had been completed a few years ago was a reasonable use of resources or whether the government backstop was a suitable solution in order for officers to focus on current work pressures and the production of current, and future, Council Accounts.

Resolved:

That the Director of Finance continue to work with officers of Grant Thornton to discuss and work towards an unqualified opinion by January 2024 and consider whether the government backstop is a viable option.

12. SWISCO Limited Company Statutory Accounts - Year ended 31 March 2023 Briefing Paper

Members noted a report that set out the statutory accounts for SWISCO Limited. Members were informed that SWISCO Limited was a wholly owned company of the Council, there was no expectation to a make profit but that the company covers its costs. SWISCO Limited had problems initially due to the legacy impacts of TOR2. The Finance Manager advised Members that 2022 was the first time SWISCO Limited was in a stable position, however there were challenges during 2022/2023 with labour and cost inflation. The price of recyclates had plummeted thereby affecting the price that SWISCO was achieving for these materials. The Finance Manager explained to Members the reason that the positives weren't obvious in the accounts was due to the pension liability. SWISCO Limited actually made a £29,000 profit, which in financial terms was really good progress.

The statutory accounts, which under accounting standards have to show the impact of changes in the valuation of the Local Government Pension Fund, and the impact of accounting for leased fleet vehicles in both the Council's and the company's balance sheets. The effects on profit of the latter two adjustments meant that the statutory return showed a loss of £837,000; the balance sheet had improved from a negative position of £11.5m to a small positive as a result of the actuarial valuation of the Pension Fund at 31 March 2023. These were accounting entries and did not reflect the actual operating position of the company.

Members sought clarification on:

- what contributed to SWISCO Limited's income;
- what was meant by 'total compensation made to key personnel'; and
- what action had SWISCO Limited Board of Directors taken as a result of the audit.

13. Treasury Management Mid - Year Review 2023/24

Members considered a report that reviewed Treasury Management activities during the first part of 2023/24. Members were advised that the Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt & investment operations. Members attention was drawn to the following:

- Interest rates had risen steadily with Bank Rate reaching 5.25% in August 2023;
- Gilt yields and therefore PWLB rates were around 1% higher than those at the start of the year;
- No new borrowing had been undertaken and internal resources used to fund capital expenditure;
- A proportion of cash balances had been locked into longer duration deposits at peak rates;
- Early repayment of an element of the debt portfolio was made after the period covered by the submitted report; and
- All decisions complied fully with the adopted principles and the Council's approved Treasury Management Strategy.

Members explored the reason for repaying an element of the debt portfolio and sought reassurance regarding the ethics of those the Council had invested funds with.

14. Collection of Council Tax and NNDR

At the meeting of the Audit Committee on 26 July 2023 concerns were raised regarding the collection of Council Tax, Non-Domestic Rates and corporate debt. In response the Director of Finance was asked to provide a report that set out the proposed mitigation, progress in implementing the required changes as a result of the Internal Audit and corresponding key performance indicators. The Director of Finance informed Members that following the implementation of a specific work project to clear the backlog of Council Tax processing, including commissioning external support, the current processing time for Council Tax was now in the region of 8 weeks, down from a peak of 26 weeks.

Members requested a brief update at each meeting in order to continue monitoring progress and asked for a separate breakdown of those in Council Tax arrears whilst in receipt of Council Tax Support. Members sought further clarification regarding the collection and write off of debt.

15. Risk Management Update

Members noted a report that provided an update on the council's current risk position and made them aware of any notable information with regards to the council's overall risk management arrangements. The Performance and Risk Manager advised Members that at present the Council had eight strategic risks and 59 corporate risks. Significant work had been undertaken with SWISCo, a wholly owned company of the Council, to establish a risk register at present two strategic risks and 17 corporate risks had been identified. Members attention was also drawn to two emerging risks, the use of artificial intelligence and the safe transfer of the Torbay Economic Development Company, a wholly owned company, to the Council.

Members questioned:

- Whether officers considered risk to be integral to their job or in addition to their job;

- The risk scores for the economy having been high for a while, what was being done with the information and whether any action was being taken to review continuously high risk scores;
- The mitigation being undertaken to address the risks identified in the risk form in respect of the Safe Transfer of the Torbay Economic Development Company to the Council;
- Artificial intelligence and the relevance to the Council; and
- The need for the Director of Finance to consider whether the risks in respect of finance need to be reviewed if a qualified audit finding on the accounts for 2021/22 was issued.

16. HR Investigations and Whistleblowing

Members noted the high-level summary of the number of HR investigations and Whistleblowing investigations in the year 1 January 2023 to 30 November 2023.

Chairman/woman

Internal Audit

Half Year Audit Report 2023-24

Torbay Council Audit Committee

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January 2024

Official

Tony Rose
Head of Devon Audit Partnership

Lynda Sharp-Woods
Audit Manager

Support, Assurance and Innovation

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Agenda Item 5

Introduction

The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2023/24 was presented and approved by the Audit Committee in March 2023.

The following report and appendices set out the background to audit service provision; any updates to the agreed plan; a review of work undertaken to date in 2023/24 and provides our current opinion on the overall adequacy and effectiveness of the Authority's Internal Control Environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This progress report provides a summary of work completed to date that will help inform the annual assurance opinion.

Expectations of the Audit Committee from this progress report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- changes to the plan and the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Senior Leadership Team, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework (see appendix 4).

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Overall Opinion Statement

Based on work performed to date during 2023/24, our experience from previous years, the outcome of the Annual Follow Up exercise and the findings of the first phase of the Assurance Mapping exercise in 2022/23, the Head of Internal Audit's Opinion on the adequacy and effectiveness of the Authority's internal control framework is one of "Reasonable Assurance".

Our audit planning process is both risk based and agile, as such our resources, and consequently our annual report will inevitably focus upon higher risk areas.

This opinion statement provides Members with an indication of the direction of travel for their consideration for the Annual Governance Statement (see appendix 4).

Assurance over arrangements for adult social care is mainly provided by colleagues at Audit South West, the Internal Audit provider for Health Services. They provide a letter and statement of assurance to the Council which is separately shared with Audit Committee.

The Authority's internal Audit plan for 2023/24 included specific assurance, risk, governance, and value-added reviews which, together with prior years audit work, provided a framework and background within which we assessed the Authority's control environment.

The reviews in 2023/24 to date have informed the Head of Internal Audit's Opinion. If significant weaknesses have been identified, these will need to be considered by the Authority in preparing its Annual Governance Statement as part of the 2023/24 Statement of Accounts. In carrying out reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified. Implementation of action plans rests with management, and these are reviewed during subsequent audits or as part of a specific follow-up.

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to establish and monitor the achievement of the Council's objectives; facilitate policy and decision making; ensure economical, effective, and efficient use of resources, compliance with established policy, procedure, law, and regulation; and safeguard the Council's assets and interests from losses of all kinds. Core financial and administrative systems were reviewed by Internal Audit.

The Council's overall internal control framework is considered to have operated effectively during the year. Where internal audit work has highlighted instances of non or part compliance, none are understood to have had a material impact on the Authority's affairs.

In some areas we are still seeing the ongoing impact of Covid-19 measures although this has seen a significant reduction to previous years.

Risk Management

We are aware that Risk Management has significantly developed within the Performance and Risk Framework with a new risk process in place, including the use of SPAR.net.

We have recently commenced an audit of this area. The outcomes of which will be reported in the annual outturn report.

We continue to maintain involvement through DAP's Risk Management arm when support is requested.

Performance and Risk Management continues to be reported to Senior Leadership Team (SLT), Audit Committee and Overview and Scrutiny. As reported to July 2023 Audit Committee, Directors are embedding risk conversations into meetings.

Governance Arrangements

Arrangements are generally reviewed within our Project Assurance provision.

The Information Governance Steering Group provides overarching governance in relation to information security, cyber governance, management, and compliance,

Finance, Ethics and Probity (FEP) maintain governance over issues within their remit.

We provide all of our Internal Reports for consideration within the Annual Governance Reporting process.

Performance Management

As detailed under Risk Management, the Performance Framework has seen significant development which remains ongoing. The related audit of Performance Management has been deferred to 2024-25 at the request of the authority, to allow processes to further develop and embed.

Irregularity and whistleblowing complaints, alongside the work of the Corporate Fraud Officer are also reported to Audit Committee.

Budget performance is monitored by SLT and full Council.

Children's Services Sufficiency Strategy and Medium-Term Financial Plan (MTFP) are monitored by SLT.

Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.	Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.	No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Summary Assurance Opinions

Service Area Overview of Audit Coverage				
Corporate and Financial Services	Pride in Place	Children's Services	Adult Services including Community and Customer Services	Public Health
ICT Key Financial Systems Registrars Apprenticeship Levy Follow Up Key Financial Systems: Asset Register; Treasury Management; Health and Safety Coroners Follow Up Information Governance and Data Quality (CCTV) IT Asset Management Subject Access Request Processes Key Financial Systems: Debtors & Corporate Debt; MIS System Admin; Treasury Management (Group Company Loans); Operational Counter Fraud resource (work ongoing) Operational secondment to energy grant processing Business Improvement and Change (work ongoing) IG Steering Group (work ongoing) HB Subsidy Additional 40+ Testing HB Subsidy (work ongoing) Assurance Mapping Phase 2 (work ongoing) National Fraud Initiative (NFI) Payroll Matches	Public Toilets Contract Monitoring Follow Up Torbay Harbour Authority Income Asset Management / TF System Follow Up Parking Follow Up S106 and Community Infrastructure Levy (CIL) SWISCo Commissioning (client role / management) Climate Change Torbay Harbour Authority IT Sys Admin and Security Follow Up Bus Subsidy Grant (work ongoing) Local Transport Capital Block Grant Local Growth Fund (Torquay Gateway) Grant Local Growth Fund (Torbay Business Centre) Grant (work ongoing) Biodiversity Net Gain Grant	Schools Financial Value Standards (SFVS) Maintained Schools Audit Programme Virtual Schools Follow Up Fostering and Connected Carers Youth Trust Transition Project Supporting Families Grants (Q1 and Q2) School Condition Allocation Grant Basic Need Funding Grant	Housing Options (focussed on Temporary Accommodation and Homelessness) Service Delivery Interdependencies (cross Directorate - Adults; Children's; Public Health)	Healthy Behaviours Service – Procurement of the Service (<i>Note, originally this was Mental Health Commissioning and Performance Management, with the audit topic changed to Health Behaviours at the request of the client</i>)

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Key: Green = Substantial or Reasonable Amber = Limited Red = No Assurance Blue = Opportunity or Value Added

Assurance Map

This is Phase 1 of the assurance mapping exercise as reported in our 2022-23 outturn report. It should be noted that the results are based on the managers own assessment of their area.

We will complete Phase 2 of the mapping within this year's audit plan and will provide an updated status in our 2023-24 outturn report. Phase 2 will seek to map the remainder of the Council and verify the managers assessment with the Council's second line of defence. The Map thus far has enabled the identification of some trends and common themes.

Torbay Council - Assurance Map - Functional Areas			Corporate Governance / Audit Committee											Senior Management							Independent Assurance - 3rd line							Regulators							External audit							
The key risks for this service / area may be defined in the services risk register. Otherwise use the Risks from the work programme in MKI together with the associated assurance opinions to assess and score control and assurance elements of this assurance map.			Business Operation - 1st line								Financial, Corporate and Governance - 2nd line											Independent challenge & audit. Reporting on assurance. Audit of assurance providers. Expiry level assurance.							Legal, Government other inspection and													
			Identifying risks and improvement actions. Implementing controls. Reporting on progress. Management assurance				Assurance oversight, management and financial policies, setting direction, risk management, ensuring compliance.				RAG RAG RAG RAG RAG RAG RAG							RAG RAG RAG RAG RAG RAG RAG																								
			Internal Control Measures				Management controls																																			
Departments/Services	Critical Area	Responsible Officer	1	2	3	4	5	6	7	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8	9	10	11	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Whole Council		Anne-Marie Bond																																								
Chief Executive Support		Susan Wiltshire																																								
Business Services - Payroll and Pensions	H	Tania Hutchings/Lee Haywood	G	G	G	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G						
HR Operational	H	Gila Wilson	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G							
HR Policy, OD and Wellbeing	H	Jo Sandbrook	A	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G							
HR Specialist Services - Pay/Reward/Job Evaluation	H	Julia Baldie	G	G	G	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G						
Governance Support		Jane Gurry																																								
Democratic Services	H	Teresa Buckley	G	G	G	G	G	G	G	G	G	G	G	G	G	G	A	G	G																							
Torbay Lottery - outsourced to Gathenwell Limited, overseen by Democratic Services	L	Teresa Buckley	G	G	A					G	A	G	G	G	G																											
Corporate Services		Matthew Fairclough-Kay																																								
Business Improvement and Change	H	Lisa Chittenden	G	G	G	G	G	G	G	G	G	A	A	G	N/A	N/A	G	G																								
Libraries (outsourced to Libraries Unlimited)	M	Matthew Fairclough-Kay	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G																									
Coroner (shared service since 2013) - PCC/DCC/TC. PCC are the lead	H	Matthew Fairclough-Kay/Philip Taylor	G	G	G	G	G	G	G	A	G	G	G	G	A	G	A	G	G	G	G																					

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Torbay Council - Assurance Map - Functional Areas

Corporate Governance / Audit Committee			Senior Management														Independent Assurance - 3rd line							Regulators							External audit											
The key risks for this service / area may be defined in the services risk register. Otherwise use the Risks from the work programme in MKI together with the associated assurance opinions to assess and score control and assurance elements of this assurance map.			Business Operation - 1st line								Financial, Corporate and Governance - 2nd line											Independent challenge & audit, Reporting on assurance. Audit of assurance providers. Entry level assurance.							Legal, Government other inspection and													
			Internal Control Measures				Management controls															RAG RAG RAG RAG RAG RAG RAG																				
Departments/Services	Critical Area	Responsible Officer	1	2	3	4	5	6	7	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8	9	10	11	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Childrens Services		Nancy Meehan	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	N/A	G	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A		G	N/A	N/A				
Children's Safeguarding		Becky Thompson	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A		G	N/A	N/A					
Front Door	H	Ellie Clerk/Brenda Nakamyia	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A		G	N/A	N/A					
Operational	H	Brenda Nakamyia/Mimi Taylor	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A		G	N/A	N/A					
Regulated Services incorporates placement and commissioning elements of wider CS.	H	Colin Shumaker/Kellie Gosney/Gina Powell (meet together)	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A	Limited	G	N/A	N/A	N/A	N/A	N/A	N/A	
Safeguarding, Early Help, Business Intelligence, and Performance	H	Shaun Evans/Emma Thomas/Lisa Pletcher/Matt Gifford (meet separately include Shaun in all meetings)	G	G	G	G	G	G	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	G	G	G	G	N/A	Reasonable	G	N/A	N/A					
Business Support	H	Becky Thompson/Matt Gifford/Mark Richards - meet together	A	G	G	G	G	G	G	A	G	G	G	G	G	G	N/A	G	G	N/A	G	G	G	N/A	N/A	N/A	N/A	N/A	N/A	G	N/A	G	N/A		G							
Learning Academy (also includes a QA function which covers whole of children services)	H	Rachael Setter/Louisa Jones	G	G	G	G	A	G	G	G	G	G	A	G	G	G	G	G	N/A	G	G	A	G	G	G	N/A	N/A	G	G	G	N/A	G	Substantial	G	G							
Education, Learning and Skills		Rachael Williams																																								
Vulnerable Pupils	H	Dan Hamer	A	A	N/A	G	G	G	G	G	G	G	G	G	G	N/A	G	G	N/A	G	G	G	G	G	G	N/A	N/A	N/A	G	G	N/A	N/A		G	N/A							
Early Years	H	Sheena Wright/Emma Kerridge	G	G	G	G	G	G	G	G	G	G	A	A	G	A	G	G	N/A	G	G	G	G	G	G	N/A	N/A	N/A	G	G	N/A	N/A	Substantial	G	N/A					G		
SEN and Disabilities	H	Hannah Spencer/Rachael Williams	G	A	G	G	G	A	A	A	G	A	A	A	G	G	A	G	G	N/A	G	G	G	G	G	G	N/A	N/A	N/A	N/A	G	G	N/A	Reasonable	G	N/A						
Virtual School	H	Jane Inett	A	A	N/A	G	G	A	G	G	G	G	A	G	G	G	G	G	N/A	G	G	G	G	G	G	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Limited	G	N/A							

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Torbay Council - Assurance Map - Functional Areas

The Assurance Map is a grid where rows represent functional areas and columns represent different assurance levels. The grid is color-coded: Green (Good), Yellow (Limited), Orange (At Risk), and Red (Poor). A yellow box at the top left contains the text: "The key risks for this service / area may be defined in the services risk register. Otherwise use the Risks from the work programme in MKI together with the associated assurance opinions to assess and score control and assurance elements of this assurance map."

Departments/Services	Critical Area	Responsible Officer	Business Operation - 1st line								Financial, Corporate and Governance - 2nd line											Independent Assurance - 3rd line							Regulators						
			1-8	1-11	1-7	1-7																													
Public Health (most are commissioned services)		Lincoln Sargeant																																	
Public Health Improvement	M	Ian Tyson	G	G	G	A	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G														
Health Care Public Health	M	Julia Chisnell																																	
Health Protection	H	Julia Chisnell	G	G	G	N/A	G	N/A	N/A	G	G	G	G	G	G	G	A	N/A	N/A	G	G	G													
Partnerships - to deliver joint strategies e.g. Community Engagement	M	Bruce Bell	G	G	G	G	G	N/A	N/A	G	G	G	G	G	G	N/A	G	N/A	G	G	G														
Place																																			
Planning, Housing, and Climate Emergency		David Edmondson																																	
Development Management	H	Wendy Ormsby	A	A	A	G	G	G	G	G	G	G	G	A	A	G	G	A																	
Enforcement		Wendy Ormsby	A			A	A		A	A	G	G	A	A	G	G	A																		
Technical Support to Planning Function	H	Mark Irving	A	A	G	G	G	G	G	A	A	A	A	A	A	G	G																		
Section 106	H	Mark Irving	A	A	G	G	A	G	G	A	G	A	A	A	A	G	G																		
CIL	H	Mark Irving	A	G	G	A	G	G	A	G	G	A	A	A	A	G	G																		
Land Charges	H	Mark Irving	A	A	G	G	G	G	A	G	A	A	A	A	A	G	A																		

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The Institute of Internal Auditors provides a summary of the benefits of Assurance Mapping:

- An Assurance Map brings an organisations risk appetite to life. At the same time as highlighting assurance gaps, it also shows where there is duplication or too much assurance. It is a simple way of aligning assurance resource, risk, and internal control.
- It improves awareness of the control environment by looking across the organisation rather than at individual reports which can lead to siloed thinking.
- It drives positive behaviours by enabling robust discussions about risk, educating on the value of assurance and aiding collaboration between functions.

- Collectively, the assurance community of an organisation often has a more powerful voice when it works together; an assurance map is a practical platform benefiting all parties.

To fit the Assurance Map into the table above we have removed column headings and replaced them with reference digits. For the purposes of cross reference, a list of column headings against the substitute numbers has been defined.

The following page sets out the details of the column headings linked to the references above.

Original Column Headings from the Full Assurance Map

First Line of Defence - Internal Control Measures	<ol style="list-style-type: none"> 1. IT Systems: Administration Access Standing Data Updates 2. Data Quality: Input/Output/Accounting/Arithmetic 3. Fraud: Prevention/Detection 4. Authorisation 5. Supervisory 6. QA Activities 7. Separation of Duties 	First Line of Defence - Management Controls	<ol style="list-style-type: none"> 1. Governance: Strategies, business plans, policies, procedures 2. Governance: Organisations structure, reporting lines, delegated responsibilities 3. Monitoring: Management information 4. Personnel: Staffing levels, competencies, training, performance 5. Resilience: Business Continuity Plans and testing 6. Risk Registers 7. Performance: Measures, indicators, benchmarking 8. Supply chain: Third party, partner resilience, contracts
Second Line of Defence	<ol style="list-style-type: none"> 1. Finance: Budget Monitoring; Reconciliations; Reporting; Statutory Returns 2. Compliance: H&S 3. Compliance: Emergency Planning 4. Compliance: Information Governance/Complaints 5. Security: IT Systems 6. Security: Physical Security 7. Corporate Governance: Strategy and Policy Development 8. Committee Oversight 9. Project Boards 10. Risk Management 11. Other 	Third Line of Defence	<ol style="list-style-type: none"> 1. Accreditation: e.g., ISO9001/27001 2. Compliance: Security, resilience, quality 3. ICT: Pen testing, resilience, compliance 4. Peer/Strategic Partner Reviews 5. Consultant Reviews 6. Other third-party reviews 7. Internal Audit

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Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can.

We believe internal audit activity can add value to the organisation and its stakeholders by:

- providing objective and relevant assurance,
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Senior Management has found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported below:

Annual Follow Up Activity

As part of adding value, we have completed follow up reviews to provide updated assurance to Members. This follow up activity is an opportunity to facilitate, review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation's strategic management arrangements.

We reviewed seven audits previously reported as Limited Assurance; these were: AMS and Tech Forge; Apprenticeship Levy; Coroners; Parking; Public Toilets (Contract Monitoring); Tor Bay Harbour Authority IT Systems; and Virtual School.

The outcomes are shown in the table at page 3. Five audits remain as Limited Assurance and two have been uplifted to Reasonable Assurance; these are Apprenticeship Levy and Virtual School.

Although not part of the annual follow up activity, the Debtors and Corporate Debt audit was a follow up of 2022-23 work. The outcomes of this were separately reported to Audit Committee in December 2023.

Corporate Services and Financial Services

- Ongoing engagement in Business Improvement and Change programmes and projects (primarily Council Redesign Programme).
- We provide relevant information and practices from Local Government articles and guidance.
- Attendance at and support to Finance, Ethics and Probity Group.

- Attendance at and support to the Council's Information Governance Steering Group.
- Support to the Council's Data Protection Officer in the provision of Freedom of Information (FOI) and Subject Access Request (SAR) data.
- Completion of additional prior year Housing Benefits subsidy testing.
- ICT horizon scanning, including Cyber defences, Artificial Intelligence, and updates to National Cyber Security Centre (NCSC) guidance.
- Advice regarding the establishment of the Westcountry Savings and Loans arrangements.
- Phase 2 Assurance Mapping to support the annual governance statement and risk management development.
- Quarterly meetings with the Counter Fraud Officer.
- Support to the Council Tax Support Scheme project.
- Support to the Customer Services review project.
- Engagement in the Transforming Procurement project.
- Engagement in the Payroll System implementation project.
- Support to the CRM project.
- Secondment to support energy grant processing.
- Resource for Counter Fraud investigation.
- Support to the NFI Payroll matches review.

Pride in Place

- Support to the TDA project.
- In addition to the planned grant work, inclusion of the Local Growth Fund Grant (Torquay Gateway and Torbay Business Centre) certifications.
- Support to S106 and CIL governance arrangements in collaboration with Pride in Place and Finance following completion of the audit.

Children's Services

- Engagement with the Liquid Logic project post go-live.
- Quarterly certification of Supporting Families grants.
- Support and provision of information in relation to the Torbay Youth Trust transition project.

Schools

- The SFVS Dedicated Schools Grant Chief Finance Office assurance statement submitted to the Department for Education.
- Completion of all maintained Schools Audits as planned.

Progress Against Revised Plan

This half yearly report compares the work carried out with the work that was planned through risk assessment and reported at Audit Committee in March 2023.

It presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit function. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need,
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements, and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

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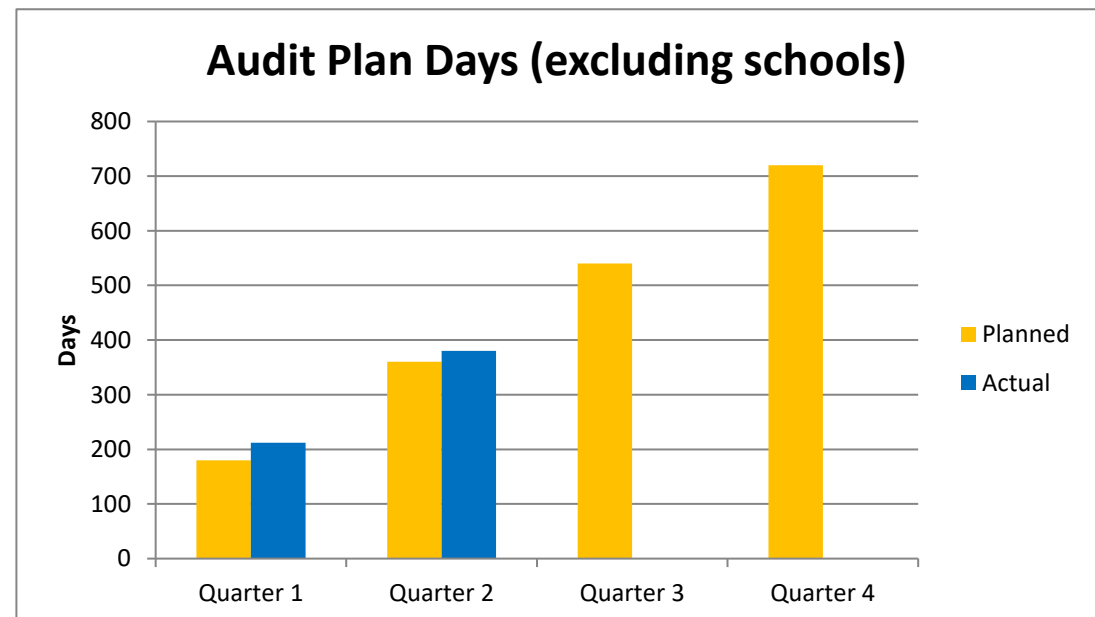
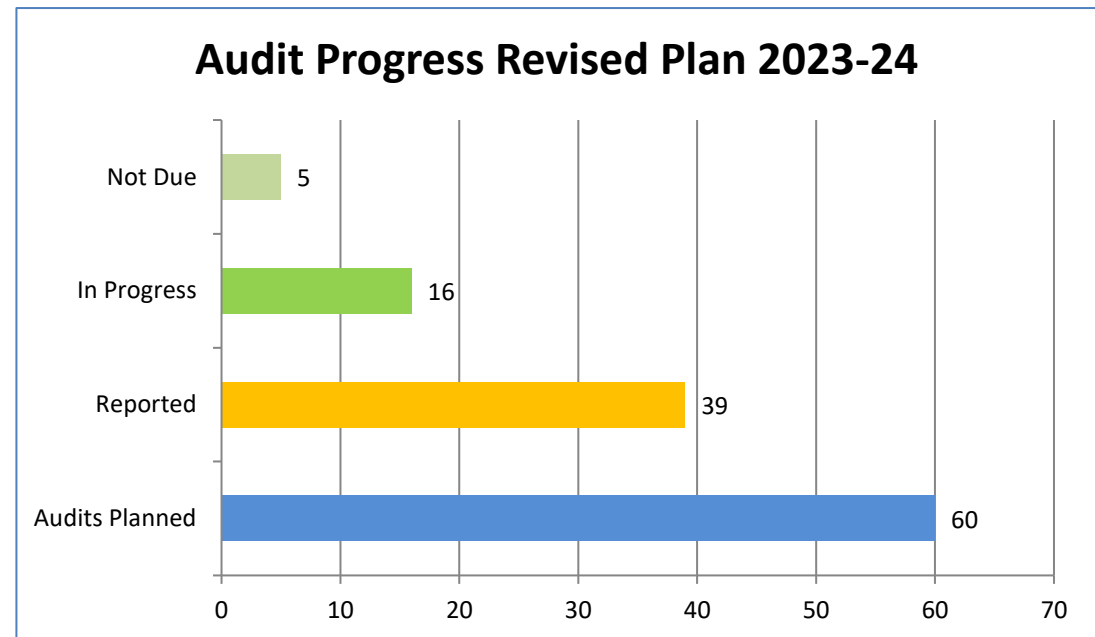
In agreement with the Council a number of audits have been deferred to the 2024-25 year to accommodate Phase 2 of the Assurance Mapping that was not included in the original audit plan presented to Audit Committee.

Some of our work supports projects and hence completion will be in accordance with project timescales.

The bar charts right show the status of audit progress against the revised plan and audit days delivered against target planned.

The charts demonstrate that progress is in line with expectations.

It is pleasing to note that following recent years where Covid had impacted departments capacity to support audit activity, audit engagement by service areas has improved and audits are now being progressed in line with the plan.



Irregularities Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice [Code of practice on managing the risk of fraud and corruption | CIPFA](#) states that "Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management". Assessments state that there is an epidemic of fraud cases. Fraud now accounts for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. It is important that councils have effective measures to reduce the risk and impact of fraud. Management can refer any suspected issues to the Corporate Fraud Officer, Internal Audit or the Finance, Ethics & Probity (FEP) Group.

Devon Audit Partnership (DAP) regularly liaise with the Corporate Counter Fraud Officer; the key outcomes of this role are the identification and investigation of external frauds and integration of fraud related aspects into our audit work. In relation to the Council's Counter Fraud investigations, DAP have recently commenced provision of operational counter fraud investigative resource to support capacity in the Council's Counter Fraud team.

The Cabinet Office now run the national data matching exercise (National Fraud Initiative – NFI) every two years. NFI activity on behalf of the Council is now undertaken by the Corporate Fraud Officer, with Internal Audit providing support in relation to Payroll matches.

We have continued to provide support to the Council's FEP Group; and undertake daily monitoring and management of the Council's Whistleblowing Inbox. We interrogate the Council's email archive system to support investigations, Freedom Of Information and Subject Access Requests.

Irregularities – During 2023/24 to date, Internal Audit have carried out or assisted in **8** new irregularity investigations. Analysis below:

Issue Classification *	2023/24 Number (half year)	2022/23 Number (whole year)	2021/22 Number (whole year)	2020/21 Number (whole year)
Poor Procedures	2	11	2	0
Employee / Member Conduct	4	1	7	9
Financial Irregularities	0	0	2	4
IT Misuse	0	1	1	0
Tenders & Contracts	1	0	2	2
Support to IG and HR Investigations	1	2	4	N/A
Total	8	15	18	15

* The 'Issue classification' title relates to the allegation made and may not be reflective of the investigation outcomes, which are summarised below:

- Support to IG and HR investigations - This work is limited to provision of emails from the archive solution, and we have no further involvement.
- Poor Procedures – Of the two matters raised, related investigations are ongoing.
- Employee / Member Conduct – Of the four matters, three were found to be unsubstantiated, and one has investigation work ongoing.
- Tenders and Contracts – this was found to be substantiated in part. Internal processes and procedures have been strengthened.

Summary details as follows: - Some irregularity investigations are as a result of allegations made by whistle blowers. In addition, we have supported Information Governance and Human Resources with the provision of emails in relation to their investigations.

Freedom of Information / Subject Access Requests and Referrals made under the Unacceptable Behaviour Policy: -




We assisted with **three** requests under Freedom of Information and Data Protection requirements or the Unacceptable Behaviour Policy to date in 2023-24.

Appendix 1 – Summary of Limited Assurance audit reports and findings for 2023/24

Risk Assessment Key


- ANA - Audit Needs Assessment risk level as agreed with Client Management
- Client Request – audit at request of Client Senior Management

Direction of Travel Assurance Key



-  action plan agreed with client for delivery over appropriate timescales & is progressing.
-  action plan agreed and is being progressed though some actions are outside of agreed timescales or have stalled.
-  action plan not fully agreed, or we are aware progress has stalled or yet to start.
* report recently issued; assurance progress is of managers feedback at debrief meeting

The table below excludes all the Audit areas examined where the Assurance Opinion was 'Reasonable' or 'Substantial', or where our work was deemed 'Added Value'. A full representation of our work and the resulting assurance opinions can be seen in the chart on page 3 of this report. Where the Assurance Opinion column is coloured, this is to highlight that the audit report has been agreed and issued in Final. Those in grey remain in draft.



CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
ICT and Information Governance			
IT Asset Management - deep dive (ANA – High)	Status: Final Limited Assurance	<p>IT asset management (also known as ITAM) is the process of ensuring that all IT assets are accounted for, deployed, maintained, upgraded, and disposed of securely.</p> <p>Our work identified that there is a knowledgeable team in place to direct the ITAM function and that new processes are being developed to enhance the process. As an example, the PC Support Team are now creating Device Damage Reports which are attached to non-repairable asset records, providing insight on why assets have been withdrawn.</p> <p>However, overall, the control framework needs to be strengthened and the significant findings are summarised below (further details can be found in Appendix A):</p> <ul style="list-style-type: none"> - There is no single inventory of ICT assets used in the organisation. - There is no defined role with overall responsibility for maintaining all IT assets throughout the organisation. - Device discovery tools are not used to identify assets that have not connected to the TC network within a defined period of time. - The asset inventory contains inaccuracies, including IT not being aware of who has ownership of certain devices. - There are weaknesses in the physical security of the storage room used to store IT user devices. 	




CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Information Governance – Data Quality and Records Management (CCTV) (ANA – High)	Status: Final Limited Assurance	<p>Whilst comprehensive corporate policies and procedures are in place in relation to information governance and data quality, we found that a number are overdue for review based on the written process that all such policies will be reviewed every 2 years. Similarly, the corporate Record Retention Schedule appears not to have been subject to an overarching review for several years. Corporate mandatory iLearn information governance training is also in place, however, there appears to be no reporting on performance in relation to staff completion of the training; we acknowledge that there is a pending relaunch of the iLearn information governance training with intention for completion rates to be reported to the Council’s IG Steering Group.</p> <p>Specifically in relation to CCTV, the Record Retention Schedule appears not to have been reviewed for several years and does not align with regulatory guidance, in addition clarity is required in relation to responsibility for the CCTV Information Asset Register entry. We noted that retention of CCTV data may be excessive in relation to requests for data and have recommended that this be reviewed. Further we have recommended a strengthening of controls in terms of the life cycle of the data where CCTV data is passed to other departments of the Council.</p>	
Subject Access Request Processes (ANA – High)	Status: Final Limited Assurance	<p>Whilst it is pleasing to note that our sample testing confirmed compliance with the Subject Access Request (SAR) process itself, i.e., the process steps being undertaken, there remains concern that the Council is still unable to meet the statutory deadlines for responding to SARs. We noted that there has been an improvement since recruitment in August 2022 of further dedicated SAR staff (currently 2.2 FTE). However, although the performance statistics do demonstrate improvement, the Council remains significantly below the intended target of 95% (currently 46% in Q2 of 2023/24). As such the Council remains vulnerable to the associated reputational and financial risk. We would draw your attention to an ICO article which outlines examples of action the ICO have taken against seven organisations that failed to comply with SAR legislation. As the article shows, there are various organisations included, three of them being Local Authorities Action taken against SEVEN organisations who failed in their duty to respond to information access requests ICO. Whilst we appreciate that SAR response times are being managed through the Council’s Performance and Risk Management Framework, we have made recommendations that this requires further review and consideration, or acceptance of the risk this still poses.</p> <p>We identified a number of areas where there is potential for further process efficiencies to be implemented and have made recommendations which would reduce labour intensive manual tasks and intend to improve SAR response times. The Head of IG has developed a dashboard for managing SARs and is also currently developing a detailed Standard Operating Procedure (SOP). We have provided support to the SOP process by flow charting the SAR process based upon our audit work. There is clearly a drive and commitment within the IG Team to comply with all aspects of the SAR legislation, however compliance is significantly impacted, in part due to the reliance on provision of data from Departments which is consistently outside of the required timescales.</p>	

CORPORATE SERVICES and FINANCIAL SERVICES

		Audit Report	
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Other			
Coroners Follow Up	Status: Final Limited Assurance	<p>During discussions with Legal Services and the Director of Corporate Services, we were advised that there have been a number of changes, including the retirement of the Coroner, following which (per Ministry of Justice - MoJ) there is a requirement to review arrangements with a view to mergers, ultimately supporting the MoJ drive to reduce the number of Coroner positions across the Country.</p> <p>We have therefore agreed for the Council to pause progression of the management actions, pending the review outcomes. We understand that the management actions will be picked up within any new arrangements established, and Internal Audit appraised of progress and reviewed timescales.</p>	
Health & Safety (ANA – High)	Status: Final Limited Assurance	<p>We identified evidence of ongoing development of the Health and Safety (H&S) control framework and the H&S team. The Health and Safety Policy is in place but is now overdue for review and approval due to unforeseen delays. We also identified that arrangements for Auditing and Reporting Procedures are under review and formal procedures are expected to be published soon.</p> <p>There were some inconsistencies in the way in which training records are maintained. We understand there is an ongoing project to update all employees training records. Policy requires that contractors are provided with H&S training, however this is not being evidenced and recorded.</p> <p>There are processes in place for the reporting, recording, and investigating of H&S incidents which is actively used. Improvements can be made to ensure that SHE Assure (H&S system) records are updated to indicate progress against actions.</p> <p>We found that H&S risk assessments was also an area where a significant overhaul and update remains necessary. We understand that a Risk Assessment Policy has yet to be produced. We are unable to determine whether recent risk assessments have been undertaken in line with procedures. Based on our testing, some departments across the council are not actively undertaking risk assessments, this could result in a higher number of incidents and non-compliance with H&S regulations.</p> <p>We have been advised by HR and Payroll that employees are required to prove they have a valid driving license, and that their vehicle is adequately insured if used for Council business. Testing found that insurance records are not consistently maintained for all employees. Where officers drive Council vehicles, appropriate policies and arrangements exist, but the Council is not provided with compliance performance monitoring information from SWISCo.</p> <p>Post Covid-19 and due to changes to home working practices, it is essential that consideration of the sufficiency of first aiders and fire marshals is established. Clarity in relation to responsibility for H&S in public spaces should be established and monitored.</p>	

CORPORATE SERVICES and FINANCIAL SERVICES


Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Key Financial Systems			
Debtors and Corporate Debt (follow up audit) (ANA – High)	Status: Final Limited Assurance	<p>It is pleasing to note that recommendations previously made are now being addressed through the Customer Services Project which is led by the s151 Officer and supported by a project manager from the Business Improvement and Change Team. Despite the relatively recent commencement of the project, a few recommendations have already been addressed and project plans are in place to ensure that the remaining recommendations are addressed by April 2024.</p> <p>We will follow up progress again in the 2024-25 audit, but in the meantime, we are attending project meetings and providing advice to the Customer Services Project.</p> <p>Whilst we are not yet able to change our assurance opinion, we can confirm a positive direction of travel with a comprehensive management action plan in place to ensure that all recommendations and intended actions are progressed in a timely manner.</p>	
FIMS Sys Admin (ANA – High)	Status: Final Limited Assurance	<p>The system access control environment for FIMS remains robust. We identified some inconsistencies in practice which are expected to be addressed through the online access request form process and note that some of the previously agreed actions will also be addressed this year.</p> <p>Our 'Limited Assurance Opinion' relates to the lack of segregation of duty created by the breadth of work undertaken by the FIMS System admin team i.e., both system administration activities and system transactional activities. Whilst the associated risks have previously been accepted by management, it is pleasing to note that a project is now underway to review and amend access rights to support better segregation of duty.</p>	
Treasury Management (Group Company Loans) (ANA – Medium)	Status: Final Limited Assurance	<p>We have concerns in relation to records management for group company and commercial loans made by the Council. Whilst there is an 'advised' process and governance framework in place, our sample testing found that there were inconsistencies in information held, with no single location to evidence compliance or support the loan lifecycle. Without a documented and adhered to governance framework, the Council is open to financial and reputational risk</p>	
<p>The following audits are currently in progress:</p> <ul style="list-style-type: none"> – Business Improvement and Change - project 'trusted advisor' (ANA – Critical) – Assurance Mapping Phase 2 (ANA – Client Request) – Information Governance Steering Group (ANA – High, Client request) – Risk Management (ANA – High) – was originally Performance and Risk Management. Amended to 'risk management' only at the request of the client. Performance Management to be examined in 2024-25. – IT Service Review (ANA – Client Request) – Operational Counter Fraud resource (ANA – Client Request) 		<p>The following key financial systems audits are in progress:</p> <ul style="list-style-type: none"> – General Ledger (Main Accounting System) and Bank Reconciliation - (ANA – Medium) – Creditors & Electronic Ordering (POP) - (ANA – High) – Income Collection - (ANA – Medium) – Payroll - (ANA – High) – Benefits and CTAX Support Scheme - (ANA – High) – Council Tax and Non-Domestic Rates - (ANA – Medium) – IBS Open / W360 Sys Admin - (ANA – High) – Benefits Subsidy - (ANA – Client Request) 	

CORPORATE SERVICES and FINANCIAL SERVICES






Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<p>The following audits are not due until later in the year:</p> <ul style="list-style-type: none"> User Management - deep dive (ANA – High) 		<p>The following audits were deferred to the 2024-25 year at the request of the client:</p> <ul style="list-style-type: none"> Capital Programme (focussed on Town Deal and Future High Streets) (ANA – Medium) – deferred due to the Capital Investment Programme currently undergoing a fundamental review. Firewall - deep dive (ANA – High) – deferred at the request of the client to accommodate consultancy for the IT Services Review. Democratic Services and Member Allowances - (ANA – Medium) Elections – (ANA – Medium) Printing (contract management) – (ANA – Medium) Procurement of IT Solutions - (ANA – Medium) CRM System – following implementation - (ANA – High) <p>A number of the above audits were deferred to accommodate phase 2 of the Assurance Mapping work.</p>	

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PRIDE IN PLACE

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<p>Tor Bay Harbour Authority – Income (ANA – Medium)</p>	<p>Status: Final</p> <p>Limited Assurance</p>	<p>The established processes for charging and invoicing service users have been maintained. However, issues previously identified regarding recharging of gas and electricity for chillers at Brixham remain unresolved by the TDA. Similarly, the lack of Torbay Harbour Authority knowledge regarding service charges made by the TDA to Lessees remains. We noted that there is a potential missed opportunity in related to utilising the agreed and published admin fee when calculating and invoicing for recharges.</p> <p>As also previously reported, there are moorings which are unsuitable for many vessels that remain vacant. These should either be made more suitable if possible or be more robustly marketed in order to maximise this income opportunity.</p> <p>We noted that as was the case previously, rents for leased properties are not being reviewed by the TDA. We understand that the TDA view is that any review would not result in an increase in rents, however this is again a potentially missed opportunity to maximise income.</p> <p>Following a change in staffing structure at Brixham harbour there is uncertainty that the Harbour Office team are made aware of all direct fish landings and as such there is a risk of fish toll not being charged for all direct landings taking place.</p>	


PRIDE IN PLACE

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Section 106 and Community Infrastructure Levy (ANA – High)	Status: <i>Interim Final</i> Limited Assurance	Most of the management response obtained, and an Interim Final report has been issued. We are awaiting remaining responses.	
SWISCo Commissioning (client role / management) (ANA – High)	Status: <i>Draft</i> Limited Assurance	Draft report has been issued. We are awaiting management responses and agreement to the report.	
Climate Change (ANA – High)	Status: <i>Interim Final</i> Limited Assurance	Management responses obtained and an Interim Final Report has been issued. We are awaiting due dates for the completion of the management actions.	
Public Toilets Contract Monitoring Follow Up	Status: Final Limited Assurance	<p>From the follow up work undertaken, and responses provided by Management, it is pleasing to note that some progress has been made, however a vast majority of these remain ongoing.</p> <p>In particular the ongoing management actions relate to establishment of a wider SLA between the Council and SWISCo, Contract variation that has been delayed pending projects related to other sites, ongoing development of Performance Indicators and associated reporting, and the technical post that is now vacant, with a recruitment exercise in progress.</p>	
Asset Management / TF System Follow Up	Status: Final Limited Assurance	<p>From the follow up work undertaken, it is pleasing to note that significant progress has been made, with half of the management actions having been completed, others having been progressed in some way, or as originally stated the risk continuing to be accepted by management. Given the number that remain ongoing, and the nature of these management actions as outlined below the overall assurance opinion remains as 'Limited Assurance', albeit that we recognise the progress that has and continues to be made.</p> <p>In a number of cases, whilst proposals have been put forward to address the management actions, these are pending Council decision, and as such the associated risks remain. In particular, upcoming review of the AMP to ensure alignment with the Council's new priorities and objectives and completion of priority works, however an emerging issues paper has been issued and awaiting outcomes. In addition, a final decision in relation to a potential temporary uplift in budget is pending. Other areas ongoing relate to ongoing engagement with contractors, the need to establish and update KPI's, resolution of all outstanding inspections, and implementation of a new workload management system.</p>	

PRIDE IN PLACE


Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Parking Follow Up	Status: Final Limited Assurance	<p>From the follow up work undertaken we note that progress has been made, with just under a third of previously agreed management actions having been implemented. There remain a significant proportion that remain ongoing, noting that progress has been made, in particular a procurement exercise to establish consultancy support in developing a 5-year strategy; updated policies and manuals; establishing reporting mechanisms; ongoing collaboration with other Council departments; and strengthening the PCN and debt monitoring and recovery processes.</p> <p>Given that a large number of management actions remain ongoing, in our opinion the level assurance remains as 'Limited Assurance', albeit that we note the comments made in the follow up response in relation to ongoing capacity issues which are reported to have delayed progress in some areas.</p>	
Torbay Harbour Authority IT Sys Admin and Security Follow Up Page 25	Status: Final Limited Assurance	<p>From the follow up work undertaken we note that some progress has been made against the previously agreed management actions. Notably the inclusion of cyber/IT risks in the Harbour operational risk register, and the strengthening of the Harbour Assist user management controls with the establishment of a dedicate System Administrator profile. A small number of risks have been accepted, primarily related to CCTV where we understand Harbour staff have no operational role.</p> <p>Although some progress has been made, a large number of actions remain either ongoing or outstanding with revised implementation dates having been established. These primarily being related to Harbour Assist supplier contractual compliance; staff training records; System compliance with Data Protection / Information Governance requirements; performance reporting; strengthening of user management practices; peer checks on tariffs and associated charges; ongoing FIMS and Harbour Assist integration issues; and further development of the Harbour business continuity plan and the need for the plan to be fully tested.</p>	
The following audits are currently in progress: <ul style="list-style-type: none"> – Getting Building (Torbay Business Centre) Grant – Bus Subsidy Grant 		The following audit was deferred to the 2024-25 year at the request of the client: <ul style="list-style-type: none"> – Land Release Fund (use of monies, adherence to conditions) - (ANA – High) – Highways (commissioning, monitoring) - (ANA – High) 	
The following audits are not due until later in the year: <ul style="list-style-type: none"> – Green Waste Collection Scheme (commissioning, monitoring, income and borrowing) - (ANA – Medium) – Events - (ANA – Medium) 			

CHILDREN'S SERVICES


Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Fostering and Connected Carers (ANA – Medium)	Status: Final Limited Assurance	<p>Comprehensive procedures are in place for the arrangements for both fostering and connected carers.</p> <p>In terms of fostering, we found that practices were largely in line with procedures, although we noted that Foster Panel decisions are not always timely, and we identified issues with the completeness and inconsistencies in records maintained. In terms of ongoing supervision of fostering placements, again we found that practices were mainly in line with procedures, however arrangements for scheduling visits differed from that described in the procedures, unannounced annual visits were not timely, and we were unable to confirm that the Foster Carers Handbook had been provided to the foster carers. We acknowledge that elements of the foster placement process are reliant on the Child's Social Worker completing the relevant steps.</p> <p>In relation to connected carers, again we found that the practices we examined were largely in line with procedures. We have recommended clarification regarding the expected timing of the initial viability assessment especially in emergency situations.</p>	
The following audits are not due until later in the year: – Safety Valve Recovery Plan Progress - (ANA – High)		The following audit was deferred to the 2024-25 year at the request of the client: – Residential Placements - (ANA – Medium) – Sufficiency Strategy Progress - (ANA – High)	

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ADULT SERVICES INCLUDING COMMUNITY AND CUSTOMER SERVICES

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Adult Services			
Service Delivery Interdependencies and related Improvement Plans (Adult Services, Children's Services and Public Health) (ANA – High, Client request)	Status: <i>Draft</i> Limited Assurance	Draft report has been issued. We are awaiting management responses and agreement to the report.	
The following audits are not due until later in the year: – Adult Services - ICO Sustainability and Improvement Plan (management and monitoring) - (ANA – High)			

ADULT SERVICES INCLUDING COMMUNITY AND CUSTOMER SERVICES

Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Community and Customer Services			
Housing Options (focussed on Temporary Accommodation) (ANA – High)	Status: <i>Draft</i> Limited Assurance	Draft report has been issued. We are awaiting management responses and agreement to the report.	

The following audit has been deferred to the 2024-25 year:

- Housing (including cross council joint working, e.g., with Pride in Place) – (ANA – Medium)

Appendix 2 - Professional Standards and Customer Service

Conformance with Public Sector Internal Audit Standards (PSIAS)

Conformance - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2023. This is supported through external assessment of conformance with Public Sector Internal Audit Standards & Local Government Application Note.

The Institute of Internal Audit (IIA) are the key body involved in setting out the global standards for the profession which form the basis for the Public Sector Internal Audit Standards (PSIAS) and are undergoing review and revision. The proposed new standards which are likely to take effect in 2024 and this document helps clarify and raise awareness of the audit committee's governance roles and responsibilities in respect of this. [IIA Document – Draft Standards](#)

Quality Assessment – Through external assessment “DAP is considered to be operating in conformance with the standards”. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by Audit Managers of all audit work. The quality assessment process and improvement are supported by a development programme.

Improvement Programme – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated and reported to the Management Board and Partnership Committee.

Customer Service Excellence (CSE)

DAP continues to maintain accreditation to CSE as assessed by G4S Assessment Services. We continue to issue client survey forms with our final reports and the results of the surveys returned are very good and again are very positive. The overall result is very pleasing, with 96% being "satisfied" or better across our services, see appendix 6. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

Appendix 3 – Audit Authority

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Appendix 4 - Annual Governance Framework Assurance

The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

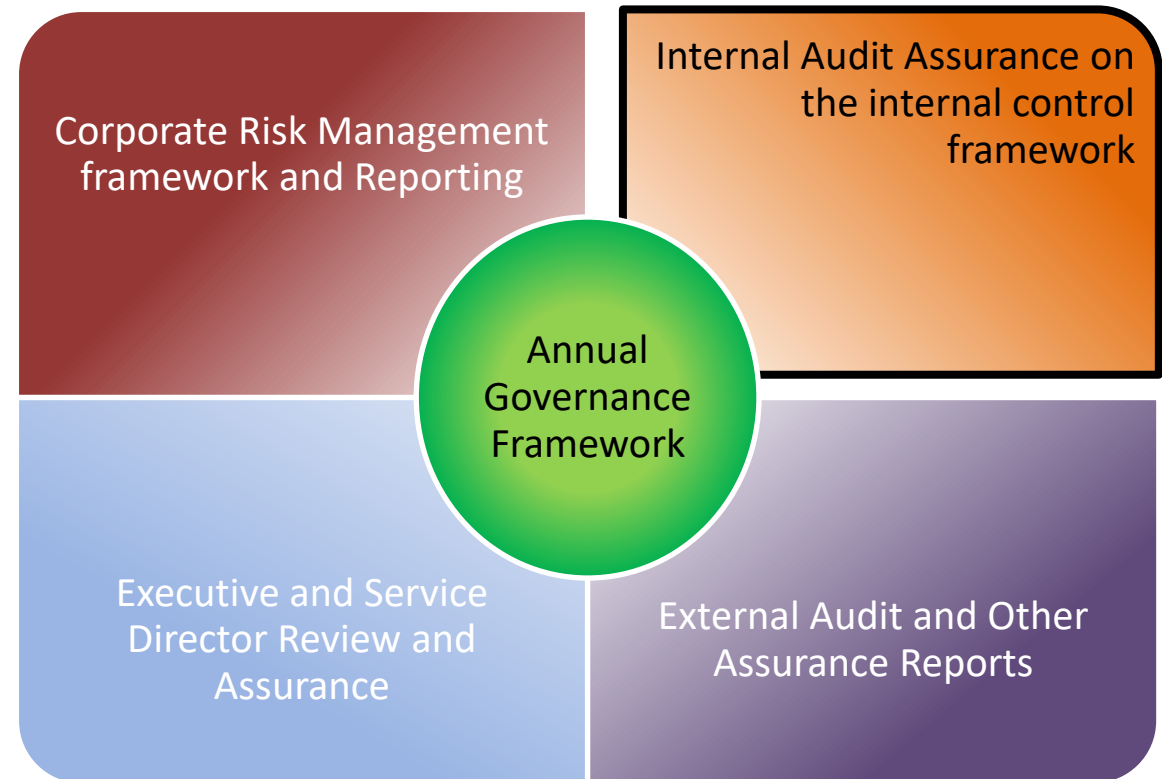
The Annual Governance Statement (AGS) provides assurance that

- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and Chair of the Audit Committee;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon;
 - The Authority;
 - Audit Committee;
 - Risk Management;
 - Internal Audit;
 - Other reviews / assurance.

Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Framework, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.

Appendix 5 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

This report compares the work carried out with the work that was planned through risk assessment; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a statement on the effectiveness of the system of internal control in meeting the Council's objectives;
- a comparison of internal audit activity during the year with that planned;
- a summary of the results of audit activity and;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements.

The extent to which our work has been affected by changes to the audit plan are shown in Appendix 1.

The overall audit assurance will have to be considered in light of this position.

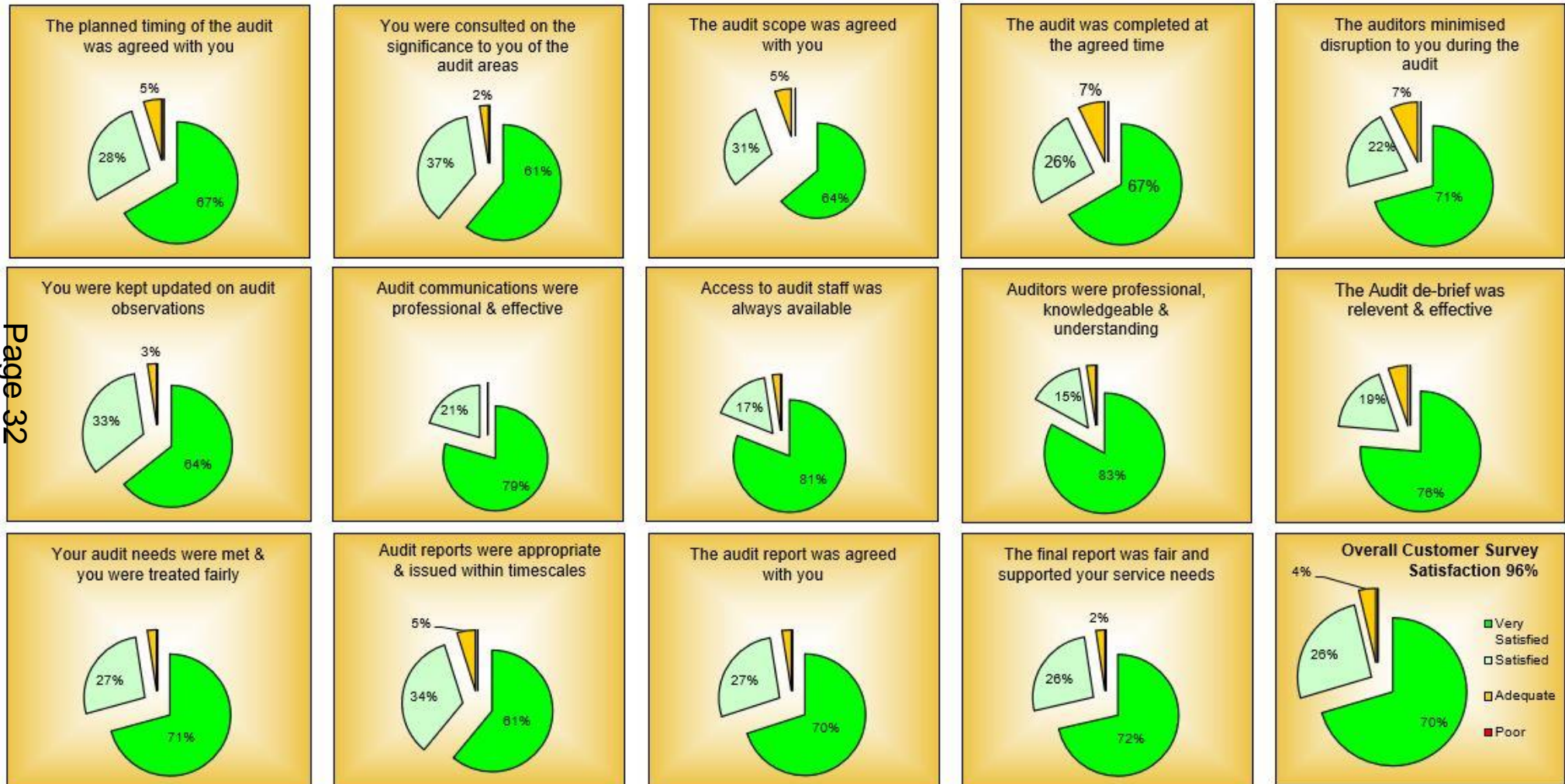
In assessing the level of assurance to be given the following have been taken into account:

- all audits completed during 2023-24, including those audits carried forward from 2022-23;
- any follow up action taken in respect of audits from previous periods;
- any significant recommendations not accepted by management and the consequent risks;
- the quality of internal audit's performance;
- the proportion of the Council's audit need that has been covered to date;
- the extent to which resource constraints may limit this ability to meet the full audit needs of the Council;
- any limitations that may have been placed on the scope of internal audit.



Appendix 6 - Customer Service Excellence

Customer Survey Results April 2023 - October 2023



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Devon Audit Partnership	Confidentiality and Disclosure Clause
<p>The Devon Audit Partnership has been formed under a joint committee arrangement. We aim to be recognised as a high-quality assurance service provider. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks, and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at Tony.d.Rose@devon.gov.uk</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.</p> <p>This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.</p>

Meeting: Audit Committee

Date: 24th January 2024

Wards affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2024/25

Cabinet Member Contact Details: Councillor Alan Tyerman, Alan.Tyerman@torbay.gov.uk

Director/Assistant Director Contact Details: Malcolm Coe, Director of Finance Malcolm.coe@torbay.gov.uk and Pete Truman, Principal Accountant, pete.truman@torbay.gov.uk

1. Purpose of Report

- 1.1 The Treasury Management Strategy at Appendix 1 to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2024/25 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meeting on 22 February 2024.

2. Reason for Proposal and its benefits

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 3rd March 2023.
- 2.2 The approval of an investment strategy by Council is a requirement of statutory guidance on Local Government Investments issued by government in January 2018. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Treasury Management Strategy gives regard to the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3. Recommendation(s) / Proposed Decision

i. The Audit Committee recommends to Council:

That:

- the Treasury Management Strategy for 2024/25;
 - the Prudential Indicators 2024/25; and
 - the Annual Minimum Revenue Provision Policy Statement for 2024/25
- be approved.

Appendices

Appendix 1: Treasury Management Strategy 2024/25

Supporting Information

1. Introduction

- 1.1 The proposed Treasury Management Strategy for 2024/25 is set out at Appendix 1

2. Options under consideration

- 2.1 As set out in Appendix 1.

3. Financial Opportunities and Implications

- 3.1 As set out in Appendix 1.

4. Legal Implications

- 4.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5. Engagement and Consultation

- 5.1 Not applicable

6. Purchasing or Hiring of Goods and/or Services

- 6.1 Not applicable

7. Tackling Climate Change

7.1 Not applicable

8. Associated Risks

8.1 Treasury Management associated risks are managed by compliance with the CIPFA code.

9. Identify the potential positive and negative impacts on specific groups

9.1

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X

Socio-economic impacts (Including impact on child poverty issues and deprivation)			X
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			X

10. Cumulative Council Impact

10.1 Not applicable

11. Cumulative Community Impacts

11.1 Not applicable

Treasury Management Strategy 2024/25

January 2024



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This document can be made available in other languages and formats.
For more information please contact financial.services@torbay.gov.uk

1 Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires Full Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and also complies with CIPFA Prudential Code for Capital Finance in Local Authorities 2021 guidance.

The Strategy for 2024/25 covers:

- Capital expenditure and Prudential Indicators
- the Minimum Revenue Provision (MRP) policy
- forecasts for future interest rates;
- the Borrowing Strategy;
- the Investment Strategy;
- treasury indicators which limit the treasury risk and activities of the Council
- policy on use of external service providers;
- reporting arrangements and management evaluation

2 Capital Expenditure and Prudential Indicators

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below, which are designed to assist Members' overview.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

A different approach is being taken in respect of setting an approved Capital Investment Programme for 2024/25, whereby various elements of grant funding are being held within a 'Project Pending' list prior to establishing affordable, tangible business cases for each respective project. The proposed 2024/25 capital expenditure of £23m, as at January 2024, only reflects the true costs, and timing, of progressing each project to the next stage, (or gateway), of Council approval which might be Initial feasibility, Outline Business Case, Full Business Case or Final Delivery.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

£M	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
General Fund services	33	61	23	11	5

It is anticipated that, during the course of the year, these figures will significantly increase as projects work through the gateway process and subsequent approvals granted which will move projects, and funds, from the pending list into the approved Capital Investment Programme. Such changes will be reported in, and approved through, quarterly budget monitoring reports presented to Overview and Scrutiny, Cabinet and Council.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

£M	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
External sources	18	29	18	7	5
Own resources	1	2	1	1	0
Debt	14	30	4	3	0
TOTAL	33	61	23	11	5

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out in Table 3:

Table 3: MRP for financing debt on maturity in £ millions

£M	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Minimum Revenue Provision	8	8	9	9	9

The Council’s full policy on **Minimum Revenue Provision** is set out at Appendix 1

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit, (also termed the authorised limit for external debt), each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Whereas Council borrowing will still be an integral part of delivering much needed capital investment within the Bay, the level of long-term debt, as reported in the 2023/24 Treasury Management Strategy was £385m (almost three times the Council’s net annual revenue budget). Therefore, future borrowing requirements have been constructively challenged with any future approvals needing to be supported by robust and realistic revenue streams sufficient to repay the debt and interest incurred.

Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Authorised limit – borrowing	600	480	500	520
Authorised limit – PFI and leases	20	20	20	20
Authorised limit – total external debt	620	500	520	540
Operational boundary – borrowing	500	430	450	470
Operational boundary – PFI and leases	20	20	20	20
Operational boundary – total external debt	520	450	470	490

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 estimate	2026/27 estimate
Net Revenue Stream	£122m	£131m	£138m	£143m	£148m
Financing costs (£m)	£18m	£19m	£18m	£18m	£18m
Proportion of net revenue stream	14.8%	14.5%	13.0%	12.6%	12.2%
<i>Financing costs exclude income from Investment Property portfolio which is included within the Net Revenue.</i>	£(14)m	£(14)m	£(14)m	£(14)m	£(14)m
<i>Percentage of Financing Costs to Net Revenue Stream inc. Investment Property Gross Rental Income</i>	3.3%	3.8%	2.9%	2.8%	2.7%

3 Local Context

In November 2023, the Council repaid circa £19m of long-term debt in order to provide a better balance of the overall level of debt compared with relatively high cash balances held over recent years. As a result, as at 30th November 2023, the Council held £364m of borrowing and £63m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 6 below.

Table 6: Balance sheet summary and forecast:

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital Financing Requirement	428	449	444	439	430
Less: Other debt liabilities *	(15)	(14)	(13)	(12)	(11)
Loans CFR	413	435	431	427	419
Less: External borrowing	(385)	(359)	(355)	(349)	(347)
Internal borrowing	28	76	76	78	72
Less: Usable reserves	(96)	(86)	(76)	(76)	(75)
Less: Working capital and other cash backed balance sheet items	(23)	(46)	(46)	(45)	(47)
Treasury investments	(91)	(56)	(46)	(43)	(50)

* PFI liabilities that form part of the Council's total debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to apply its cash resources in place of external borrowing in the short term, i.e. internal borrowing.

The Council has a reducing CFR, due to the finite Capital Plan and ongoing MRP adjustments, which can be funded from internal resources over the medium term thereby delaying the need to borrow.

As part of the 2024/25 budget setting process, the Council has reviewed and revised the affordability and deliverability of its Capital Investment Programme. The updated programme will reduce the overall Capital Financing Requirement and future loans required when the Council's Balance sheet is restated at the end of the 2023/24 financial year.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 6 shows that the Council expects to comply with this recommendation during 2024/25.

Liability benchmark: The Code requires a "liability benchmark" to be calculated showing the lowest risk level of borrowing. This assumes the spend forecasts as detailed in table 1, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

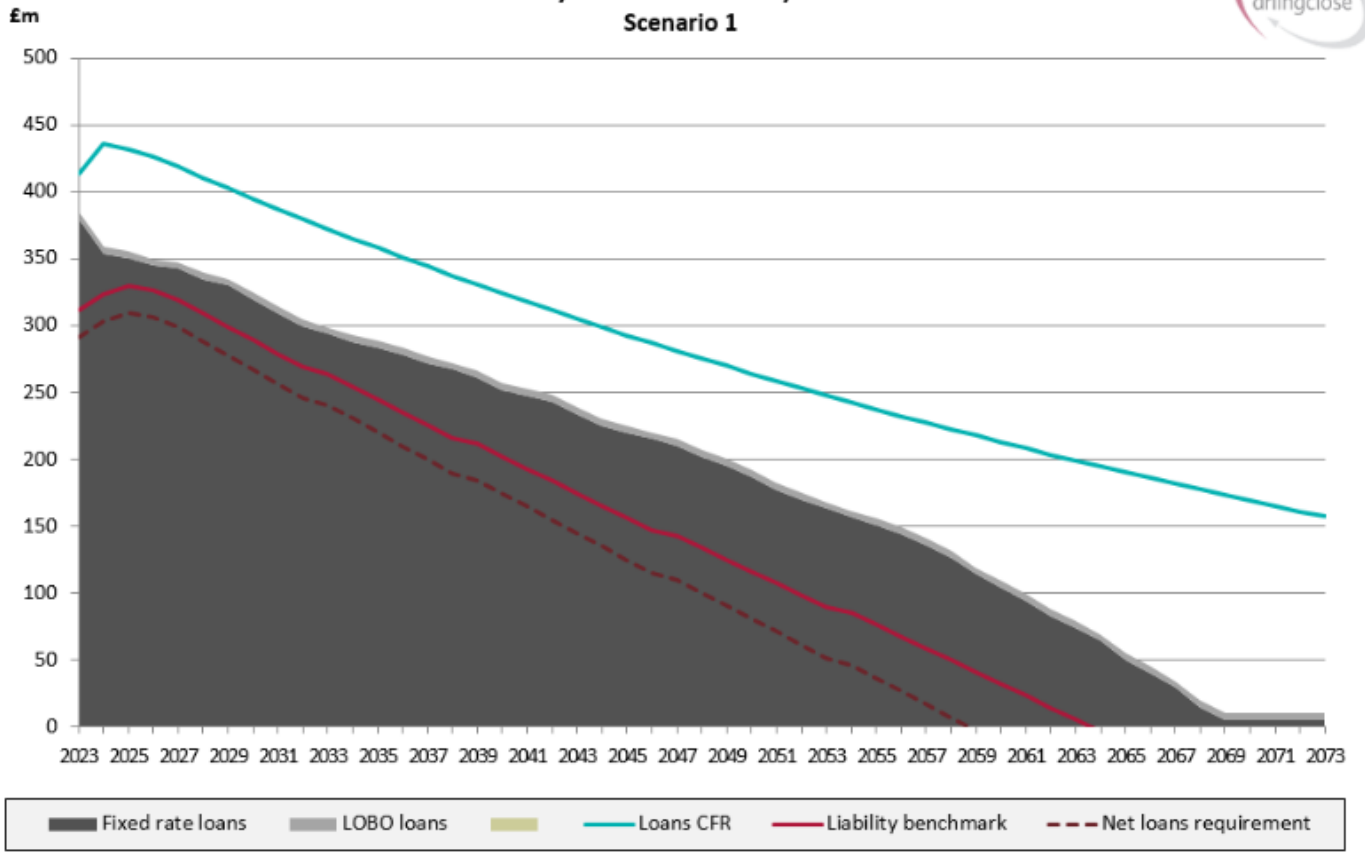
However, consideration will be given regarding the use of cash balances, at a point in time, to fund a long-term borrowing requirement as this could result in risks around higher debt costs when borrowing is required.

Table 7: Prudential Indicator - Liability benchmark

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	413	435	431	427	419
Less: Balance sheet resources	(119)	(132)	(122)	(121)	(122)
Net loans requirement	294	303	309	306	297
Plus: Liquidity allowance	20	20	20	20	20
Liability benchmark	314	323	329	326	317

The maturity profile of the Council's existing borrowing compared with the Capital Financing Requirement and 'Liability Benchmark' are detailed in the following graph:

**Liability Benchmark - Torbay Council
Scenario 1**



4 Economic and Interest Rate Forecast

The Council's advisors, Arlingclose Ltd have provided an economic commentary (updated for November 2023) detailed as Appendix 2 together with their interest rate forecasts for future years as shown in table 8:

Table 8: Arlingclose Ltd interest rates forecast

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

Note: The Council will borrow at PWLB certainty rate which is the relevant gilt yield + 0.80%

Arlingclose have highlighted the following key points:

- Bank Rate has most likely peaked at 5.25%
- The Monetary Policy Committee (MPC) will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering effects. Rate cuts are likely to commence from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Gilt yields are likely to eventually fall from current levels, (amid continued volatility), reflecting the lower medium-term path for Bank Rate. However, yields will remain higher than in the past, due to quantitative tightening and significant bond supply.

5 Borrowing Strategy

The Council currently holds £364 million of loans, a decrease of £21 million on the previous year. The balance sheet forecast in table 6 shows that the Council does not expect to need to borrow in 2024/25 due to internal resources being available to fund capital expenditure in the short term. However, should the Capital Plan be expanded, the Council may borrow to pre-fund future years' requirements providing this does not exceed the Authorised Limit for borrowing.

Objectives: The Council's chief 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.

Strategy: Given the significant cuts to public expenditure, particularly 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. 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.

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

In the event of any new external borrowing requirements over and above internal borrowing capacity, the Council will look to the PWLB to secure long-term funding of projects. However, alternative sources will be considered. This approach may also be combined with short-term borrowing to augment the affordability criteria.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

The budget for payment of interest on debt for 2024/25 has been based on an assumed £359m of "historic" borrowing as at 31/03/24 with an overall borrowing rate of 2.91% (2.98% in 2023/24).

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- 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 (except Peninsula Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

- Municipal Investments using loans and bonds
- “Green” bonds (loans to Council)

Other sources of debt finance: 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
- similar asset based finance

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.

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 below in section 7 Treasury Management Indicators.

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. Other lenders may also be prepared to negotiate premature redemption terms. The Chief Finance Officer 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years. In response to this the Council repaid circa £19m of long-term loans in November 2023.

6 Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balance has ranged from a high of £102 million down to around £62 million currently. That current level is likely to be maintained in the forthcoming year.

Objectives: 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. 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. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark in Section 2 above, the Council expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

To achieve this the Director of Finance is reviewing opportunities for further diversification into strategic investments with the expectation that a proportion of available cash will be placed early in 2024/25 following a robust evaluation process.

The policy for who the Council can invest with, (counterparty selection), and investment limits is detailed in Appendix 3.

Non-Financial Investments Strategy

The Government and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. The current schedule of non-financial investments is detailed at Appendix 4. All decisions have followed the appropriate risk management framework and strategy for non-financial investments as approved by Council.

Any involvement by the Council in community investment schemes such as Credit Unions and Mutual Banks would fall into this category and would not be managed within the treasury management policies.

Guidance within the Prudential Code states that, "councils with existing commercial investments are not required by this Code to sell these investments.....however councils that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management strategy. These reviews should evaluate whether to meet expected borrowing needs by taking new borrowing or repaying

investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits” The last review was set out in the Treasury Management Strategy 2023/4.

Environmental, Social and Governance (ESG) Investments

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council’s ESG considerations do not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Officers will continue to monitor and evaluate ESG investment opportunities, and these may be incorporated into future investment strategies subject to yield and security. Given the limited range of counterparties the Council can use for its investments and that borrowing is mainly from the Government there are limited opportunities to apply ESG principles in this Strategy.

7 Treasury Management Indicators

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6)

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 1 months	£10m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The Council's debt portfolio is virtually all at fixed rate and therefore has no exposure to fluctuations in interest rates. As such, no specific limits are proposed on interest rate exposure but any new borrowing will be restricted to a maximum **30%** of the total portfolio exposed to variable interest rate.

Maturity structure of borrowing: This 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:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	50%	0%
30 years and within 40 years	50%	0%
40 years and above	50%	0%

Principal sums invested for periods 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 period end will be:

Price risk indicator	2023/24	2024/25	2026/27
Limit on principal invested beyond year end	£40m	£40m	£40m

8 Treasury Management Consultants

Arlingclose Ltd was appointed as the Council's external Treasury Management advisor for three years from April 2020, following a full tender process. An option to extend the term for a further two years was subsequently exercised by the Council.

The Council recognises that responsibility for Treasury Management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

9 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2024/25 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Management Review report
- Annual Treasury Management Outturn report

The Director of Finance, (CFO), will inform the Cabinet Member for Corporate Services, Finance and Housing of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Director of Finance is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit. Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Director of Finance (Chief Finance Officer);
- Quarterly monitoring report to the Cabinet Member for Corporate Services, Finance and Housing;
- Quarterly meeting of the Director of Finance, Treasury Manager and Treasury Advisors (Arlingclose) to review previous quarter performance and plan following period activities;
- Ad-hoc meetings with the Council's treasury advisors as required;
- Regular Investment benchmarking against other local authorities

The Audit Committee is the governance body responsible for the scrutiny of Treasury Management, making any relevant recommendations and amendments through Cabinet and Full Council.

The CIPFA Code requires the Chief Finance Officer to ensure that members with responsibility for treasury management receive adequate training. In compliance with this, a comprehensive briefing, and training event, was held on 6th December 2023, delivered by Arlingclose and the Director of Finance.

The training needs of treasury management officers are periodically reviewed.

Appendix 1

Policy on Minimum Revenue Provision for 2024/25

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment)) Regulations 2012 and supported by statutory guidance, which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their Full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

“the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the Capital expenditure provides benefits”

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance after deduction of the value of Adjustment A (a set valuation in 2004), to clear the borrowing liability over a period of 50 years.

In relation to transferred debt from Devon County Council the Council deem it prudent to allocate a VRP, (voluntary revenue provision), calculated in line with the supported borrowing calculation, based on a total repayment period of 50 years.

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset, (including investment fund properties), in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset.

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated on the total expenditure on that asset, in the financial year **after the asset becomes operational** or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes, they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by the Chief Finance Officer.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DLUCH will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

In terms of **Council led Housing developments**, the MRP charge can be based on the life of the housing assets developed. A life of more than 50 years can be applied if supported by an independent valuer's report.

Each asset life will be considered in relation to the asset being constructed (primarily to ensure the MRP period does not exceed asset life); however, as a guide the following are typical ranges for asset lives that will be used.

Asset Type	Range of Asset Life
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 2

Economic Commentary

(Provided by Arlingclose Ltd, November 2023)

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023): Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to

stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the US Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

Appendix 3

Creditworthiness Policy and Investment Limits

The Council may invest its surplus funds with any of the counterparty types in table 9, subject to the cash limits, (per counterparty), and the time limits shown. The Chief Finance Officer will exercise his delegated powers “to take any decisions, (including Key Decisions), and to exercise all legal powers relevant to the Council’s borrowing, investments and financial management)” (s.7.1 of the Constitution – Officer Scheme of Delegation) to vary these limits at any time to ensure they remain viable and relevant during any market or political volatility.

Table 9: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£15m	Unlimited
Secured investments *	3 years	£15m	Unlimited
Banks (secured)*	3 years	£15m	Unlimited
Banks (unsecured) *	13 months	£6m	Unlimited
Building societies (unsecured) *	13 months	£6m	£18m
Registered providers (unsecured) *	3 years	£6m	£20m
Money market funds *	n/a	£15m	Unlimited
Strategic pooled funds	n/a	£10m	£30m
Real estate investment trusts	n/a	£10m	£20m
Other investments *	3 years	£6m	£15m

This table should be read in conjunction with the notes below

*** Minimum credit rating:** 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 considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and 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 credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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 with any one counterparty will not exceed the cash limit for secured investments.

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.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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.

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.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example through 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 £15,000,000 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 Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. 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.

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 new 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: 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, reports in the quality financial press and analysis and advice from the Council's 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 criteria.

Reputational aspects: The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, on an exception basis, with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £86 million on 31st March 2024. In order that no more than 20% of available reserves will be put at 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 £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as

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.

Table 10: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£30m per manager
Foreign countries	£30m per country

Document is Restricted

Title:	Counter Fraud and Error Update
Wards Affected:	All Torbay Wards
To: Audit Committee	On: 24 January 2024
Contact Officer:	Rachel Worsley
☎ Telephone:	01803 207549
✉ E.mail:	Rachel.worsley@torbay.gov.uk

1. Key points and Summary

- 1.1 This report updates the Audit Committee on counter fraud activity undertaken for the period of 1 April 2023 to 30 November 2023, including reported fraud and irregularities.
- 1.2 The Corporate Counter Fraud and Error team deliver a service across the Council which aims to prevent, detect, and deter fraud, error and criminality related to fraud. The team investigate allegations of fraud, plan and take part in counter fraud campaigns (e.g. the National Fraud Initiative), undertake fraud awareness activities with staff and the public, maintain and update the counter fraud framework and related policies.
- 1.3 Though this activity, financial losses are prevented, additional revenue is identified for recovery, income is secured through the supply of services, and redress sought in cases of civil or criminal offending.

2. Introduction

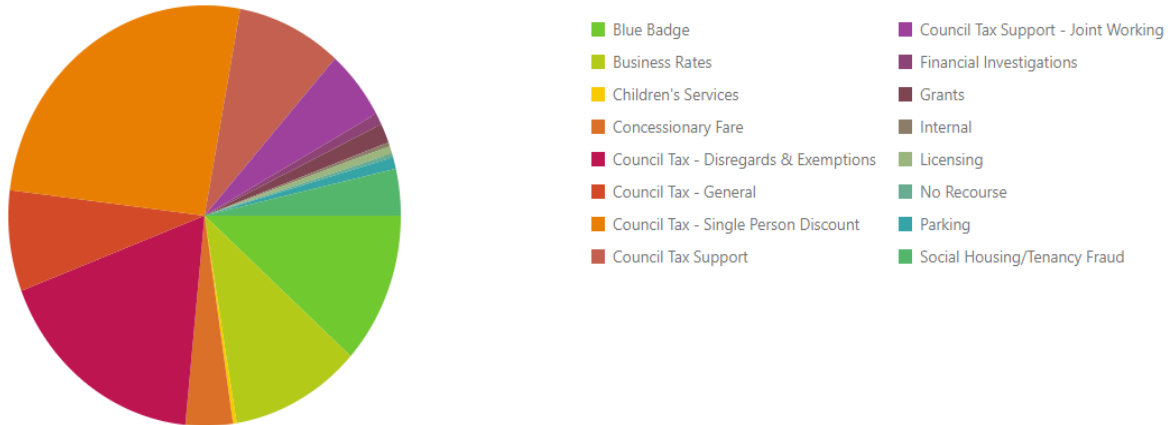
- 2.1. Fraud is a significant risk to the public sector. The government estimated that between £33.2 and £58.8 billion of public spending was lost to fraud in 2020/21. Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2.2. It is generally accepted there has been an upturn in fraudulent activity following the pandemic with the cost-of-living crisis extending the trend.
- 2.3. Torbay Council has received high profile funding for local projects from Central Government. This further increases the risk of fraud posed against Torbay Council. Hence Fraud is to be recognised as a corporate risk.
- 2.4. The Counter Fraud and Corruption Policy sets out the expectations of Torbay Council and describes what is meant by fraud bribery and corruption and outlines the responsibilities of Councillors, Directors, Managers, and employees. It received update by Audit committee March 2023.

3. Fraud Prevention and Detection

- 3.1 The team provides case by case prevention and intelligence support to teams across the council.

- 3.2 During the covid-19 pandemic and the following energy crisis, the counter fraud team resource was repurposed to provide assurance and administration support to the issuing of the funding administered for Central Government, Fraud investigations were placed on hold. Some of the assurance work continues.
- 3.3 On conclusion of the above work, opportunity was taken to review the Case management system used by the team. A new system was procured which required the team to develop and implement over the summer months. During this period, investigations into reported fraud remained on hold.
- 3.4 The Cabinet Office run a national anti-fraud campaign, The National Fraud Initiative (NFI). Participation is mandatory. It is a data matching exercise to assist in the detection area of fraud. Each year the Electoral Register is compared against Council Tax Single Persons Discount. This work too had been placed on hold during those periods. Therefore, during this period of development, other team members took the opportunity to review the annual Single Person Discount match provided by the NFI on 06 January 2023. Responsibility having previously sat with the Council Tax Team but due to resourcing demands, placed on hold. The fraud team reviewed the file and conducted enquiries. The team identifying Council Tax accounts requiring amendment. The review identified an issue in mapping of council tax properties to the Local Land and Property Gazetteer (a data source used by the NFI to provide the matches). This has enabled the Council Tax team to address which will reduce the size of future reports.
- 3.5 Reviews of several Council Tax discounts and exemptions, present in the council tax charge-base is underway. This has identified cases where discounts or exemptions are present where a person, for whom the reduction is received, has passed away. A suggestion to match Council Tax discount and exemption records to Deceased data within the National Fraud Initiative was made to the Cabinet Office. We have received their communications advising of their intention to run a pilot in this area with a view to national roll out. This will allow Councils to identify where a council tax discount or exemption has remained in place following a person's death.
- 3.6 The fraud team underwent training for use of the new system and set about indexing the backlog of fraud referrals into the new case system.
- 3.7 The team conducts Work to support the Housing Strategy, with a focus on properties recorded as empty in the council tax charge base as this informs the wider across department empty property team. This work involves accuracy checks and seeks to identify if the property has become occupied without advice to the council tax team.
- 3.8 In October 2023 the Fraud Manager presented to the Senior Leadership Team the importance of conducting departmental Fraud Risk assessments. Work in this area is ongoing, linking in with service planning project.
- 3.1 The team's work is varied and covers a wide programme of reactive and proactive investigations. The diagram below demonstrates the diverse nature of the 291 referrals received and the range of case types covered.

Count of Cases by Case Category



4. Project Areas and Savings

- 4.1 **Investigations** have taken place throughout the year to identify fraud and error and the benefits received are detailed below. It should be noted that the savings are actual and are not using the standard methodology which covers several years. The figures shown for council tax are based on total liability, although the benefit is split between Torbay Council, Devon and Cornwall Police and Devon and Somerset Fire and Rescue Service.
- 4.2 **Council Tax - Single Persons Discount continues** to be an area of high volume and thus high financial risk). Work to identify a partner organisation to provide single persons discount review services is underway to prevent and detect fraud in this high transactional area.
- 4.3 **Council Tax - Unregistered properties** an external provider, procured to undertake this work on a no win no fee basis, has identified properties which were otherwise unregistered for council tax purposes.
- 4.4 **Council Tax - Unreported changes in property ownership/occupation** continues as an area of financial risk. The fraud team seek to identify unnotified changes.
- 4.5 **Undervalued or Unrated Business premises** continues to be an area of financial risk. The counter fraud and business rates team seek to identify unrated or undervalued business premises. An external provider is also procured to support this work on a no win no fee basis.
- 4.6 **Un-notified change of business owner** continues to be an area of financial risk, the pandemic highlighted business owners had not come forward to register for business rates. The Council saw a surge in business owners coming forward. The risk remains present, and the team discovers changes because of other work.

Scheme	Number of cases reviewed	Number of removals/amendments	Value of amended liability
Single Person Discount (NFI)	1915	410	£358,146
Exemptions and Disregards	639	59	£166,052
Unregistered properties (external provider)	9	9	£20,600
Ownership/Occupation	4	4	£13,265
Business Rates (external provider)	18	9	£26,833
Business Rates	4	4	£78,934

- 4.7 **Housing – empty homes** – In partnership with members of Housing Standards, Planning Enforcement, Environmental Health we aim to reduce the number of empty properties in Torbay. This work supports Torbay Councils Housing Strategy.

The fraud team commences the process by reviewing properties registered as empty (not second homes) in the council tax database to ensure accuracy before involving the wider team.

All properties registered as empty more than 6 years have been reviewed. This identified occupied properties, ownership changes and properties deemed appropriate to approach the Valuation Office Agency (VOA) to remove from the council tax charge base. It should be noted, these properties attract a council tax levy which, in each case, had not been paid, resulting in unnecessary recovery work.

Scheme	Number of cases reviewed	Number identified as occupied	Number of VOA reports	number of ownership changes	Value of Ownership Changes
Empty Homes	120	24	15	4	£23,358

5. Process Improvements

- 5.1 **Concessionary Fares** – the National Fraud Initiative matches live concessionary fare bus passes with Department of Works and Pensions Deceased data. The report contained 1168 records. On review of these matches, by the fraud team, a weakness in processes was identified. The weakness having arisen due to the concessionary fares team relying upon reports of death via the optional Tell Us Once Service. Concessionary fares team are not advised of other deaths on the registrar's report which gives details of all deaths which occur in Torbay. Although the Data Protection Act only protects the privacy of living data subjects, the registrar's regulations mean this data cannot be shared direct therefore the council is re-sharing this data internally with the concessionary fares team.

The review further identified a member of the concessionary fares team had deviated from process allowing re-training for this team member.

5.2 **Council Tax Refunds** – recommendations to the team, to strengthen the refund process prompted a review. The council tax team introduced measures designed to prevent money laundering. Following implementation, we received an alert by National Anti-Fraud Network. This revealed Torbay had been a target by fraudsters looking to launder money from cloned cards. Our internal processes had prevented the fraudsters success in Torbay, where other Local Authorities had fallen foul.

6. Areas with outstanding referrals & investigations

- Council Tax/Single Persons Discount
- Council Tax Support
- Business Rates
- Social Housing/Tenancy Fraud
- Blue Badge
- Licensing
- Concessionary Fares
- Special Guardianship Allowance

7. Current Position (2023/24)

- 7.1 From September 2023, the team consists of 2.8 full time equivalent member of staff, 1 Manger & Counter Fraud Specialist and 1.8 Counter Fraud Technicians/support officers. Devon Audit Partnership are being utilised to assist with investigations and redress once cases have undergone substantive checks.
- 7.2 Work to complete the review of the discount and exemptions already underway.
- 7.3 We aim to continue to reduce the backlog of investigations.
- 7.4 We plan to participate in the NFI pilot of matching Council tax to Deceased Death Register information. As we will have completed work in this area previously, we do not anticipate a high volume of matches but participating in the pilot will provide assurance.
- 7.5 Work to update the mandatory Fraud awareness course for all staff to include learning of the Economic Crime and Corporate Transparency Act 2023 is planned.
- 7.6 The Council has a legal defence requirement. Part of this defence is to ensure its staff are aware of how to report fraud and are aware of the failure to prevent the facilitation of tax evasion which is included within the fraud i-learn module. An audit to ensure members of staff have completed the mandatory corporate fraud i-learn course is planned.

Rachel Worsley
Counter Fraud and Error Manager

Title: **Regulation of Investigatory Powers Act (RIPA) Update**

Wards Affected: **All Wards in Torbay**

To: **Audit Committee** On: **24 January 2024**

Contact Officer: **Joanne Beer, Head of Information Governance**

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1. Key points and Summary

- 1.1 The Regulation of Investigation Powers Act 2000 (RIPA) governs the use of covert surveillance activities by public authorities.
- 1.2 The Council's policies have been reviewed and updated to ensure they reflect legislation and national codes of practice.
- 1.3 Staff within the Council's RIPA structure have all received training on the requirements of the legislation.
- 1.4 Every three years Torbay Council is suspect to inspection by the Investigatory Powers Commissioner's Officer (IPCO) and our most recent inspection took place in November 2023.

2. Introduction

- 2.1 A Council is a public authority under RIPA 2000. A public authority may carry out covert surveillance where this surveillance is directed and not intrusive and only in relation to an offence for which there could be a custodial sentence of at least 6 months.
- 2.2 Although Torbay Council has not undertaken any main RIPA authorisation since 2008 and has not authorised any requests for communications data since the Trading Standards service transferred to Devon County council, we are still required to ensure that our policies, guidance and staff training are up to date. This ensures that in the event a RIPA authorisation, relevant officers are aware of their responsibilities under the Act.

3. RIPA Update

- 3.1 The Council's main RIPA Policy and Guidance Manual has been subject to a full review and update. Along with a full update of the RIPA officer Structure and associated guidance for staff, this includes guidance for the CCTV team on

handling police requests for surveillance using the Council's CCTV system.

- 3.2 In line with national guidance, we have put in place a policy regarding the use of social media in investigations. This policy provides guidance for staff about how social media content can be used to assist with investigations, but also sets out what is not permitted and what may be considered covert surveillance and therefore require a RIPA authorisation.
- 3.3 All staff within the Council's RIPA Structure all received updated training in November 2023. In addition to this, officers who have an enforcement or investigatory element to their role were also required to undertake this training to ensure they were aware of the legislation and their responsibilities within it.
- 3.4 The Council is also required to hold a central record of RIPA authorisations and while none have been conducted, this record has been updated to ensure that it captures all the relevant information required under the Codes of Practice.
- 3.5 Every three years the Council is subject to an inspection from the Investigatory Powers Commissioner's Office (IPCO). The latest inspection took place virtually in November 2023.
- 3.6 The inspection found that with the policy updates and staff training outlined above, Torbay Council was compliant with the requirements under the Act and we our compliance position will be revisited when our next inspection is due in November 2026.

Joanne Beer
Head of Information Governance