Bath & North East Somerset Council

Improving People's Lives

Corporate Audit Committee

Date: Thursday, 23rd September, 2021
Time: 4.00 pm
Venue: Council Chamber - Guildhall, Bath

Agenda

To: All Members of the Corporate Audit Committee

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn, Lucy Hodge and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

The agenda is set out overleaf.

Enfys Hughes
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

Paper copies are available for inspection at the Guildhall - Bath.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Corporate Audit Committee-Thursday, 23rd September, 2021

at 4.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

2. ELECTION OF VICE-CHAIR

   To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

   The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES - 29TH APRIL 2021 (Pages 7 - 12)

9. EXTERNAL AUDIT - UPDATE (Pages 13 - 22)

10. TREASURY MANAGEMENT OUTTURN REPORT 2020/21 (Pages 23 - 40)

11. INTERNAL AUDIT - UPDATE REPORT (Pages 41 - 48)

The Committee Administrator for this meeting is Enfys Hughes who can be contacted on 01225 394410.

BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Thursday, 29th April, 2021, 4.00 pm

Councillors: Mark Elliott (Chair), Colin Blackburn and Brian Simmons
Independent Member: John Barker
Officers in attendance: Jeff Wring (Service Director - One West), Andy Cox (Head of Audit and Assurance (One West)) and Mandy Bishop (Chief Operating Officer)
Guests in attendance: Peter Barber (Grant Thornton) and Aditi Chandramouli (Grant Thornton)

72 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting by explaining that this meeting is being held under The Local Authorities and Police and Crime Panels (Coronavirus)(Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. The Council has agreed a protocol to cover virtual meetings and this meeting would operate in line with that protocol. The meeting has the same status and validity as a meeting held in the Guildhall.

73 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were apologies from Councillors Lucy Hodge and Andy Furse.

74 DECLARATIONS OF INTEREST

There were none.

75 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

76 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

77 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

78 MINUTES - 4TH FEBRUARY 2021

On a motion from Councillor Brian Simmons, seconded by John Barker (Independent Member) it was

RESOLVED to note the minutes of the last meeting as a true and correct record.

79 AUDIT & ASSURANCE ANNUAL REPORT 2020/21

Andy Cox presented the report, reporting on the year end position and summary of audit performance and giving the Chief Auditor Executive's opinion on the internal control framework. He explained, as had been agreed previously, that the number of planned audit reviews had been reduced due to unplanned work and there was likely to be further unplanned work this year. He went on to explain the performance dashboard highlighting the impact of working from home on audit work.

It was reported that two audit reviews carried out during the year had be assigned a 'Weak' - Limited Assurance Level, one was a contract management review of the IDOX IT application and the second was Property Compliance (management of key property risks such as water, electric and gas systems, fire safety and asbestos). This area was last audited in 2015 and that resulted in a 'Poor' assessment and Property Management subsequently attended the March 2016 Audit Committee meeting to explain action taken and planned. As the 2020/21 Audit Review identified similar weaknesses in the management of Property Compliance this was highlighted early to the Council's Chief Operating Officer (Mandy Bishop) who was taking a lead role in a broader Property Services Review. Mandy Bishop commented on the findings of the audit review and actions being taken to correct the governance/system weakness. She stated that following the 2015 audit there had already been work on compliance (asbestos, legionella, fire, gas safety) and a significant amount of work to establish frameworks for maintenance and construction. Following the 20/21 Audit, terms of reference for the Health, Safety and Well-being Committee had been redrafted, compliance duties were being reviewed, building surveys are planned and work to address data input weaknesses and systems had commenced. She stated Alan McCarthy (Interim Head of Property Transformation) had been appointed to assist with implementing the action plan and would be working closely with the Council's Section 151 Officer, Audit Team and Corporate Health and Safety Manager. She commented on the high-risk areas (governance, scrutiny of Property Compliance) and the medium risk areas (construction maintenance and estate structures and recruitment of a Fire Officer). Governance structures would be formalised following the Council AGM on 4th May 2021. There was further work to be completed on data requirements, the risk register, KPIs and condition surveys. The outcomes of this work would feed into the medium-term financial strategy for 2021-22.

A follow-up audit was planned for 2021-22 and the advice and guidance provided by Internal Audit was welcomed. She thanked the team for their support in supporting service improvement. She concluded that she would be happy to report to this Committee at a future date.

The following issues were raised:

In terms of Property Compliance Audit Review –

- It would be an 18-month work programme moving forward;
- radon gas in properties was not picked up in this audit;
- the Chief Operating Officer would report back on the implementation of agreed actions;

- hi-risk weaknesses focussed on governance and scrutiny and allocation of roles which would be implemented within a shorter timescale than the 18-month period for all actions to be implemented.

In terms of the Internal Audit Performance Report –

- the substantial amount of unplanned work would continue as a result of officer secondment and being actively involved in Covid19 grants as government released further funding and the pandemic continued;
- cyber security was as a result of national security directives from government due to a number of local authorities and multi-academy trusts who were subject to cyber attacks, this resulted in questions to all Councils including BANES re. their readiness to manage such attacks;
- help had been commissioned from SOCITM, a leading IT advisory service, and internal audit resources have been used to work on this review which would continue into 2021-22.

When preparing an annual report on Internal Audit the Chief Audit Executive (Head of Audit) must give an opinion on the risk framework, referred to in the report (section 3.11). This year due to Covid-19, audit work had been done remotely and at the November 2020 Corporate Audit Committee the limitation and assurance officers had given was discussed, as certain things could not physically be seen. The key aspects in paragraph 3 of 3.11.2 indicated remote working through the year along with the high level of unplanned work, therefore changes to the scheduled plan were made. As the Committee had agreed to the change of plan in November 2020 there was no need for a limited opinion. All the work outlined in this report, plus assurances from the internal control framework lead to the opinion that the systems to manage risk were reasonable.

RESOLVED to note the Internal Audit Annual Report 2020/21 and formal opinion on the internal control framework.

80 INTERNAL AUDIT PLAN - 2021/2022

Andy Cox presented the report and explained that in line with Public Sector Internal Audit Standards the Internal Audit Plan must be prepared every year and an Audit Charter needs to be maintained and reviewed annually. There were only some minor amendments to the Audit Charter, i.e. job titles.

In respect of the Audit and Assurance Plan this had gone through consultation with statutory officers and senior managers. A significant proportion was in response to Covid-19. In addition to the core audit plan, work relating to governance, fraud and risk management would be carried out. There was likely to be more unplanned work in respect of Covid-19 including investigations and grant administration and scrutiny and challenge of that. Therefore, the plan must remain flexible and kept under review with a report back to Audit Committee at half year. There was no contingency time allocated in the Plan as resources available had been fully allocated so if there was further unplanned work, audits would be taken away from the bottom end of listing (based on risk scoring).

During discussion the following issues were raised:

- The plan was in priority order, but things do change during the year and the plan would be re-assessed;
- only high priority items were in the audit plan, no low risk items were in the plan and this was following consultation with this Committee and senior management and through the risk assessment process and reasonable assurance model;
- risk was dynamic and moving so it could change in 6 months following discussion with senior officers;
- the focus of the audit review could change significantly and trend analysis could be useful or have limitations;
- audit plans must remain current and relevant.

It was proposed by Councillor Brian Simmons, seconded by John Barker and

RESOLVED

1) to approve the Audit & Assurance (Internal Audit) Plan 2021/22; and
2) to approve the Internal Audit Charter.

81 EXTERNAL AUDIT UPDATE

Peter Barber (Grant Thornton) presented the report – the annual audit letter aimed at stakeholders so should be available on your website. It gives a clear opinion on your financial statements and value for money (VFM). The next part of the report (page 71) gives the final proposed fees for the Council. It reflects the changes in fees which were outlined. When the plan was presented around 12 months ago, uplifts were proposed and had been agreed in principle on increased focus and risk. Since Covid-19 there has been a significant impact on delivery and resource input. In addition, with the accounts for 2019-2020 it was unclear if Aequus, ACL and ADL would be consolidated into the main part of the accounts. This resulted in a large number of procedures that had to be undertaken and incurred another uplift. As always the final fees are subject to sign off and approval. Evidence to support the need for this work has been submitted.

As regards the Pension Fund there is a similar scenario (page 74). There was a focus on level 3 investments, then a further increase due to work driven by Covid. Given the inherent risk within the valuation, some extra expertise had been brought in from their valuation team.

Additional fees was an area for discussion and the following points were raised:

- Further explanation was given as to how the work on additional fees was verified;
- public sector audit appointments are responsible for 490+ councils and pension funds and things have moved on in terms of regulations in terms of challenge and scope of the audit and there are expected uplifts across every council that vary depending on the size of the portfolio;
- an example when Aequus first went into the group accounts in 2019-2020 which resulted in extra work;
- further changes in VFM can't be done until 2021-22;

In respect of the audit plan for 2021 for the Council, currently in 2021-22 and we have only just received the plan for 2020-21, so not where we would wish to be nationally and we are 2-3 months behind in the audit cycle. There are still some 2019-20 audits outstanding. In terms of opinion it would be similar to 2019-20 and it will be land and buildings that takes a lot of input. There will be focus on the Pension Fund liability. There will be a proposed materiality figure of 7 million and anything over that will be subject to audit procedures. Introduction of VFM will change new areas of focus in 2021-22. 2021 was a better outturn position at the beginning of Covid-19, then with clarity and funding/grants from central government there was confidence to deliver the budget in 2021-22. However, things change in 2022-23 with lots of uncertainty and gaps. Governance is a key role for the Council and within the Council it was good but there was need for further work with partners and subsidiaries to be effective and proportionate. The last area is economy efficiency and effectiveness, about performance management arrangements, KPIs and benchmarking and how the Councils knows it is performing well and sharing best practice. So auditors would be working with Council officers on these areas which would impact on additional fees. There would be money available to help public sector with these costs.

Points raised:

- new VFM arrangements – broad headings with supporting guidance on challenge areas and there will have to be work in all three areas;
- the plan seeks to identify the areas of risk and flag at an early stage to clarify where the Council needs to improve;
- these points are specific to BANES, other councils are suffering from the impact of Covid-19 and struggling to balance the books, unitary authorities with demand led services find it increasingly hard, Covid-19 is a bigger issue for BANES due to the income from the investment portfolio, so more vulnerable;
- in respect of governance BANES has looked at alternatives like Aequus and working with a combined authority;
- on VFM there has been an extension of 3 months as this is a new area, if there are areas of concern we would share our findings earlier;
- the detailed work on VFM the bulk in July – September, working remotely or face-to-face, engaging with key people;
- correlation between fees and work level on VFM – have local government advice, training, work requires specific skills so we are resourcing for this – extended time has been given for Year 1 to get the work completed;
- the issue of timing of the accounts sign-off, target is September 2021 – we won't hit this deadline but will liaise with officers as to what is deliverable;
- this delay caused issues for BANES officers and incurred fees;
- the Pension Fund would be prioritised over the Council, then the Council in October 2021;
- Corporate Audit Committee dates were arranged around the statutory work, updates and sign-off of the accounts so liaison and flexibility between external auditors and officers was vital to facilitate planning;
- BANES was not the only local authority not to have completed accounts within the deadline and it was expected that more authorities would miss the deadline again this year;

- BANES accounts were complex with more investment properties than most, more land and buildings, as well as group accounts.

In respect of the Pension Fund (page 99) the difference was that an opinion is given on the accounts but there is no VFM equivalent. The focus is valuation at level 3 investments and materiality is higher this year. All the default risks are set out and reflect an uplift in fees due to additional work.

RESOLVED

1) to note the External Audit Letter (Appendix 1); and
2) to endorse the Audit Plans for the Council and Avon Pension Fund (Appendices 2 & 3).

The meeting ended at 5.31 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**23rd September 2021**	**AGENDA ITEM NUMBER**
TITLE:	**External Audit - Update**	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Update Report**		

1 THE ISSUE

1.1 The External Auditor will present an update on their work and progress towards auditing the Council's Accounts for 2020/21 and next steps.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the update report.

3 FINANCIAL IMPLICATIONS

3.1 There are no new financial implications from this report directly.

4 THE REPORT

4.1 Appendix 1 details an update on the External Auditor's work and progress towards the completion of the audit of the Council's Annual Accounts.

4.2 The Committee will be aware of the significant delays to the completion of work and the approval process for the Annual Accounts for the previous year which were discussed in detail at its last three meetings.

4.3 The External Auditor will provide a briefing on their plans for completion of their work for this year's accounts at the meeting along with a proposal to move the date of the Committee's next meeting to December 15th in order to assist the process.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring (01225 47323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Audit Progress Report and Sector Update

Bath and North East Somerset Council
Year ending 31 March 2021

Corporate Audit Committee date: 23 September 2021

Contents

Introduction

Peter Barber

Engagement Lead

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This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Corporate Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 14 September 2021

Financial Statements Audit

We presented our 2020/21 audit plans for the Council and Avon Pension Fund to the Corporate Audit Committee in April 2021. These set out our proposed approach to the audit of the Council's and Pension Fund's 2020/21 financial statements.

The significant risks we identified within those plans were as follows:

Bath and North East Somerset Council

- Income from other fees and charges and investment estate;
- Management override of controls;
- Valuation of land and buildings including investment properties; and
- Valuation of net pension fund liability

Avon Pension Fund

- Management over-ride of controls
- Valuation of Level 3 Investments
- Actuarial Present Value of Promised Retirement Benefits

In those plans we noted that MHCLG has set an indicative date of 30 September 2021 for audited local authority accounts (two months earlier than last year). Given the system-wide pressures set out in our audit plans, we indicated this is highly unrealistic for 2020-21 audits (but as a firm we are fully supportive of this in a 'normal' year).

Therefore we proposed the following target completing dates for our audit fieldwork:

- Council Audit: 29 October 2021
- Pension Fund Audit: 30 September 2021

Completion of the field work by the end of October would have enabled us deal with completion tasks and targeting signing off your accounts following the early December meeting of this Corporate Audit Committee on 2December 2021.

Progress as at 14 September 2021

Our audits of the Council and Pension Fund commenced in early August 2021 in accordance with our original timetable.

Since then progress on both audits has been slower than we would have hoped. This has been due to a number of factors, most notably resourcing challenges on our side. The Audit Manager on the pension fund side has been off work due to Covid and in the case of the Council we have not been able to fill the vacant manager position. This has placed extra pressure on the remainder of both teams.

This, combined with the challenges of working in a remote environment, the increased volume of work that we need to do to be able to issue a safe opinions, and the additional scrutiny we are under from our regulator has resulted in us needing to revise our completion timetable.

It is important to stress that we have had excellent co-operation from both sets of finance officers at the Council and Pension Fund. Both audit teams and your finance teams have worked hard to deliver to the original timeline but we recognise that this is now not achievable.

From our work undertaken to date, we have not identified any significant or material issues impacting on the accuracy of either set of draft financial statements presented for audit, however, this is subject to the usual caveat that we need to complete the remainder of our work.

From a context point of view, we want to assure you that you are not alone in being in this position, with the national picture being such that a significant proportion of local government audits will not meet the deadline of the end of September, and we are aware that some firms are not even starting their LG audits until the beginning of October. The delays nationally reflect the late start on many 2020/21 audits due to overrunning 2019/20 audits.

Progress at 14 September 2021

Way forward

Although it is disappointing we will not be able to achieve the early December completion. We are not too far behind our original schedule.

We are keen to get the opinion audits complete as soon as is practical, but want to work out a robust resource plan from our side to make sure we can deliver to the agreed revised timescale. We anticipate that this would mean we are working to a target timeline of mid November for the Pension Fund and early December for the Council.

On this basis we are in discussion with officers to agree the timing of the reporting of our audit findings to the Corporate Audit Committee. This may necessitate some changes to the timing of future committees.

As a team we are committed to completing these audits before Christmas, three months earlier than 2019/20.

We would like to put on record our appreciation for the continued support from officers at the Council and Pension Fund.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.

We now anticipate this work being completed by the end of February 2022, at the latest.

Audit Deliverables

2020/21 Deliverables	Relevance	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the 2020/21 financial statements.	Council and Pension Fund	April 2021	Complete
Audit Findings Report The Audit Findings Report will cover the findings on our financial statements audits.	Council and Pension Fund	December 2021 (revised)	Not yet due
Auditors Report This is the opinion on your financial statements and annual governance statement.	Council and Pension Fund	December 2021 (revised)	Not yet due
Auditor's Annual Report This summarises the work undertaken as part of our Value for Money assessment. The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.	Council only	February 2022 (revised)	Not yet due

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.


Grant Thornton

Transparency report

Grant Thornton UK LLP year ending 31 December 2020

April 2021

The full report is available here:

[Transparency report 2020 (grantthornton.co.uk)]

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Bath & North East Somerset Council	
MEETING	**Corporate Audit Committee**
MEETING DATE:	**23rd September 2021**
TITLE:	**Treasury Management Outturn Report 2020/21**
WARD:	All
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Performance Against Prudential Indicators
Appendix 2 – The Council's Investment Position at 31st March 2021
Appendix 3 – Average monthly rate of return for 2020/21
Appendix 4 – The Council's External Borrowing Position at 31st March 2021
Appendix 5 – Arlingclose's Economic & Market Review Q4 of 2020/21
Appendix 6 – Interest & Capital Financing Budget Monitoring 2020/21
Appendix 7 – Summary Guide to Credit Ratings

1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.

1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2020/21.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

2.1 The Treasury Management Report to 31st March 2021, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st March 2021 are noted**.**

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3 THE REPORT

Summary

3.1 The average rate of investment return for 2020/21 is 0.41%, which is 0.43% above the benchmark rate.

3.2 The Council's Prudential Indicators for 2020/21 were agreed by Council in February 2020 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

3.3 The Council's investment position as at 31st March 2021 is given in **Appendix 2**. The balance of deposits as at 31st December 2020 and 31st March 2021 are also set out in the pie charts in this appendix.

3.4 Gross interest earned on investments totalled £332k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.41%, which was 0.43% above the benchmark rate of average 7 day LIBID +0.05% (-0.02%). This excess is mainly due to the £5m investment held in the CCLA Local Authority Property Fund, which is a long term strategic investment earning a higher rate of interest (3.69% for 2020/21).

3.5 The level of return in 2020/21 was significantly lower than the previous financial year (0.41% in 2020/21 compared to 1.02% in 2019/20), which is due to decreases in interest rates across the globe resulting from the global pandemic. However as can be seen by the margin over the benchmark, actual performance against the benchmark of 0.43% in 2020/21 has remained similar to the 2019/20 rate of 0.44%.

Summary of Borrowings

3.6 The Council's external borrowing as at 31st March 2021 totalled £243.5 million and is detailed in **Appendix 4**. On 1st April 2020, the Council borrowed £15.0m short term from a local authority for general cashflow requirements, and to lower liquidity risks arising from uncertainties surrounding the Covid-19 pandemic at that time. No further borrowing was taken during the remainder of the year as cash balances remained high.

3.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2021 was £326.9 million. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.

3.8 The CFR represents the underlying need to borrow and the difference from the current borrowing of £243.5 million represents re-investment of the internal cash balances and reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.9 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31st March 2021 apportioned to Bath & North

East Somerset Council is £10.9m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.6.

3.10 The borrowing portfolio as at 31st March 2021 is shown in **Appendix 4**.

Strategic & Tactical Decisions

3.11 As shown in the charts in **Appendix 2**, the investment portfolio is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund and highly rated UK Banks to maintain very short term liquidity and had overall investments of £72.5m invested as at 31st March 2021.

3.12 The Council does not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates.

3.13 The Council's investment portfolio as at 31st March 2021 includes a total of £5m invested longer term in the CCLA Local Authorities Property Fund. Given the difficult economic climate and uncertainty over future cashflows, the Council did not make any additional longer-term investments this year.

3.14 The Council has reviewed its current investment holdings with its Treasury Management advisors to assess whether any of the investments placed are directly related to companies involved in fossil fuel activities. It was confirmed that the Council does not currently invest directly in equities or certificates of deposits that were not issued by banks or building societies and does not have any direct investments in fossil fuel companies.

3.15 The Council commissioned Arlingclose to undertake a review of possible ESG (Environmental, Social and Corporate Governance) funds into which the Council could invest surplus treasury assets. The report has been received and due diligence is being undertaken into specific funds for potential investment during 2021/22. The potential for making future ESG focussed investments is included in the 2021/22 Treasury Management Strategy, approved by Council in February 2021.

3.16 The Council's average investment return of 0.41% was below the budgeted level of 1.10%, although the impact of this is offset by the Council investment balances being higher than forecast and additional interest received from non-treasury activity.

Future Strategic & Tactical Issues

3.17 Our treasury management advisors full economic and market review for the year 2020/21 is included in **Appendix 5**.

3.18 The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

3.19 The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

3.20 After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

3.21 The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

3.22 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus remains on the rate of increase and the medium-term peak.

3.23 The borrowing that took place in 2020/21 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

3.24 Due to the high cash balances held by the Council at the end of 2020/21, a decision was made to repay the £15m one-year loan taken at the start of 2020/21 from the London Borough of Bromley upon its 1st April 2021 maturity date.

3.25 The Council is seeking advice from its treasury advisors on the potential option to make an early repayment of a £10m LOBO loan during 2021/22 as part of a debt rescheduling approach. This provides potential to make revenue savings and reduce risk by replacing the LOBO debt with a PWLB loan at a lower interest rate with the replacement loan duration more aligned to the Council's future borrowing profile. A financial appraisal is being undertaken into the restructuring options and the decision whether to proceed will be taken by the S151 Officer in line with the approved Treasury Management Strategy.

Borrowing update

3.26 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November, the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8%, provided that the borrowing Authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB, except to refinance existing loans or externalise internal borrowing. As part of the borrowing process, Authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer.

3.27 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

3.28 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

3.29 As the Council is not currently planning to purchase any investment assets primarily for yield within the next three years, it is able to continue to access funding from the PWLB.

3.30 As of 6 April 2021, the 25 year PWLB certainty rate for annuity loans was 1.93% (2.44% as at 2 April 2020).

3.31 In line with the Council's Treasury Management advisor's advice, the Council will continue to consider borrowing rates offered by alternative lenders, including other Local Authorities, alongside PWLB rates in order to minimise, where possible, its costs of borrowing.

Budget Implications

3.32 A breakdown of the revenue budget showing interest and capital financing and the year end position based on the period April to March is included in **Appendix 6**. An overall underspend of £2,323k is reported towards the Council's net revenue outturn, mainly related to the re-phasing of capital spend. This is following the review of the capital programme in response to the Covid 2020/21 financial recovery plan, leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and Borrowing advice is provided by our Treasury Management consultants Arlingclose. As a result of the coronavirus pandemic, the frequency of updates and recommended actions from Arlingclose has increased, the Council has been acting on all recommendations in a timely manner.

6.3 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

7.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

7.2 An ESG section has been added to the Treasury Management Strategy document for the 2021/22 period and the treasury team will actively consider investment options permitted under the new guidelines.

7.3 The Council commissioned Arlingclose to undertake a review of possible ESG (Environmental, Social and Corporate Governance) funds the Council could invest in. The report has been received and due diligence is being undertaken into specific funds for potential investment during 2021/22.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Section 151 Finance Officer and Monitoring Officer.

9.2 This report was also on the agenda for July 2021 Cabinet and Council.

Contact person	*Gary Adams - 01225 47 7107; Jamie Whittard - 01225 47 7213 Gary_Adams@BATHNES.GOV.UK ; Jamie_Whittard@BATHNES.GOV.UK*
Background papers	*2020/21 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1
Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt
These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	£'000	£'000
Borrowing	457,000	243,457
Other long term liabilities	4,000	0
Cumulative Total	**461,000**	**243,457**

2. Operational limit for external debt
The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	£'000	£'000
Borrowing	427,000	243,457
Other long term liabilities	4,000	0
Cumulative Total	**431,000**	**243,457**

3. Upper limit for fixed interest rate exposure
This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	£'000	£'000
Fixed interest rate exposure	**427,000**	**223,457***

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the Lender exercise this option to increase the rate).

4. Upper limit for variable interest rate exposure
While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	£'000	£'000
Variable interest rate exposure	**214,000**	**20,000**

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. 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.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	£'000	£'000
Investments over 364 days	**50,000**	**5,000**

6. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 31st March 2021
	%	%	%
Under 12 months	**50**	**Nil**	**16.4%**
12 months and within 24 months	**50**	**Nil**	**2.1%**
24 months and within 5 years	**75**	**Nil**	**0.0%**
5 years and within 10 years	**100**	**Nil**	**6.2%**
10 years and above	**100**	**Nil**	**75.4%**

* The CIPFA Treasury management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (which are at 6 monthly intervals for the £20m of LOBO's).

7. Average Credit Rating*

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2020/21 Prudential Indicator	Actual as at 31st March 2021
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AAA-**

***** *The calculation excludes the strategic investment in the CCLA Local Authority's Property Fund which is unrated.*

APPENDIX 2

The Council's Investment position at 31st March 2021

The term of investments is as follows:

Term Remaining	**Balance at 31st March 2021**
	£'000's
Notice (instant access funds)	47,500
Up to 1 month	5,000
1 month to 3 months	5,000
3 months to 6 months	0
6 months to 12 months	10,000
CCLA Property Fund (Strategic)	5,000
Total	**72,500**

The investment figure is made up as follows:

	Balance at 31st March 2021
	£'000's
B&NES Council	70,593
Schools	1,907
Total	**72,500**

The Council had a total average net positive balance of £82m during the period April 2020 to March 2021.

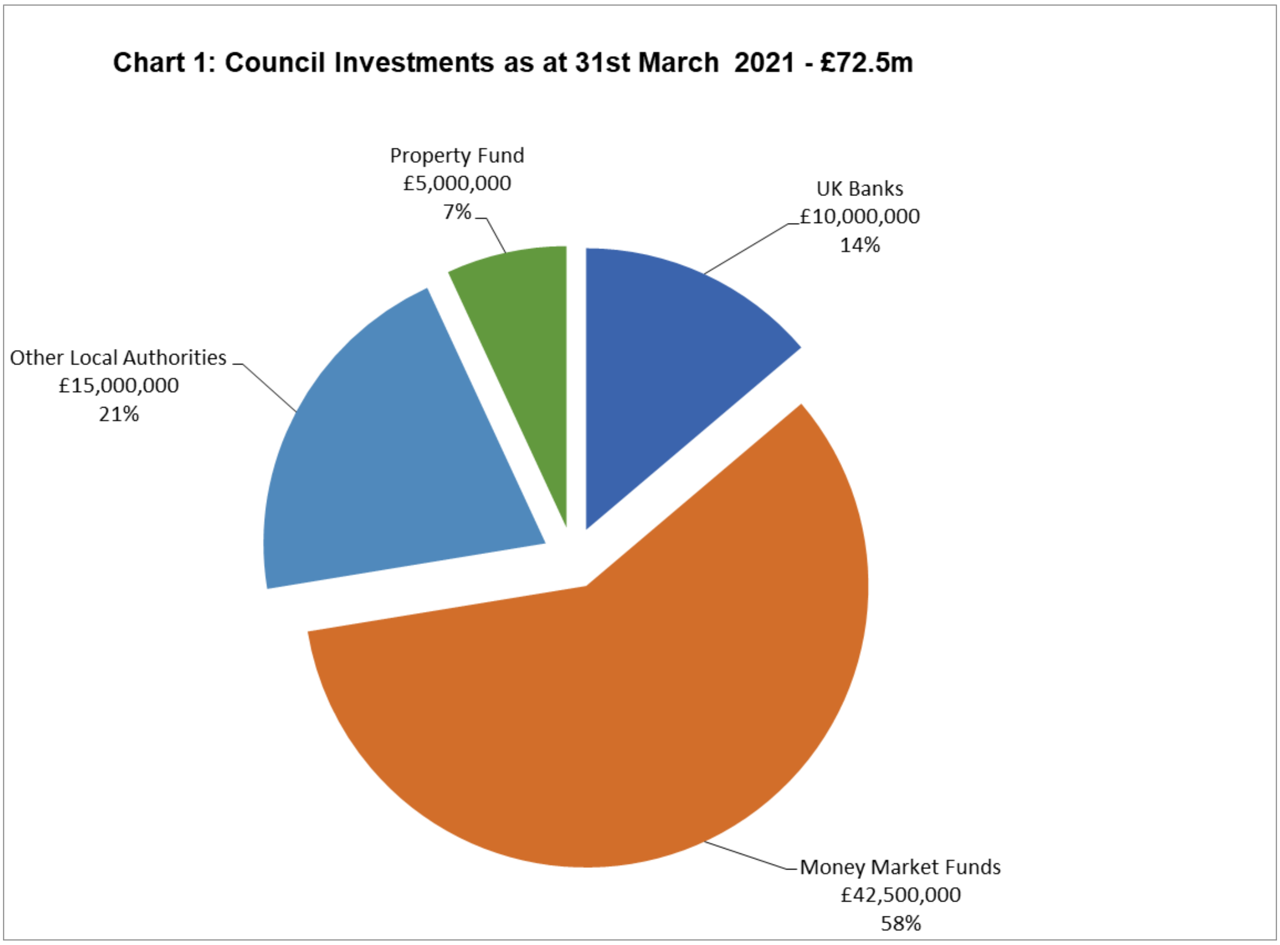


Chart 1: Council Investments as at 31st March 2021 - £72.5m
Property Fund
£5,000,000
7%
UK Banks
£10,000,000
14%
Other Local Authorities
£15,000,000
21%
Money Market Funds
£42,500,000
58%

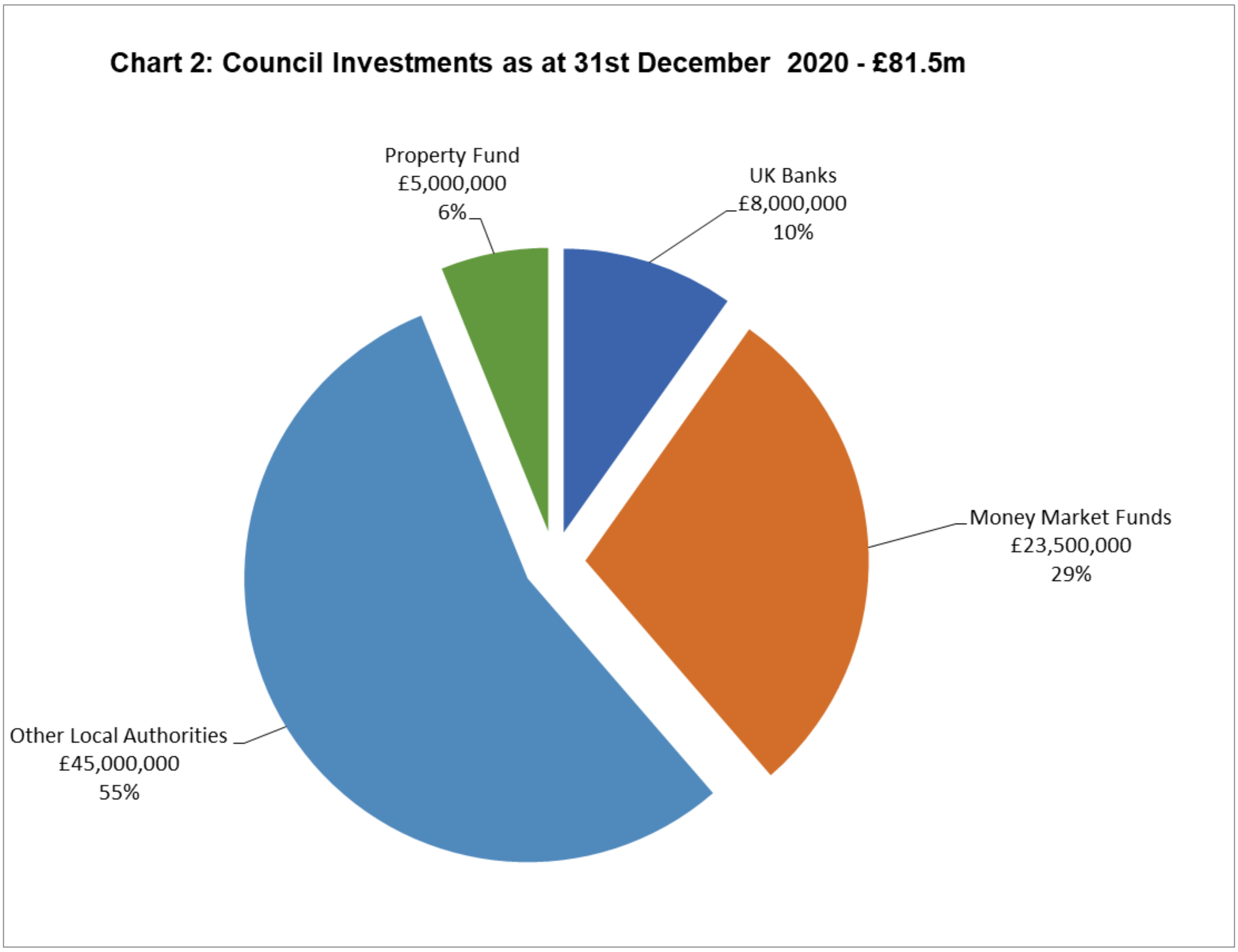


Chart 2: Council Investments as at 31st December 2020 - £81.5m
Property Fund
£5,000,000
6%
UK Banks
£8,000,000
10%
Money Market Funds
£23,500,000
29%
Other Local Authorities
£45,000,000
55%

Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2021 - £72.5m

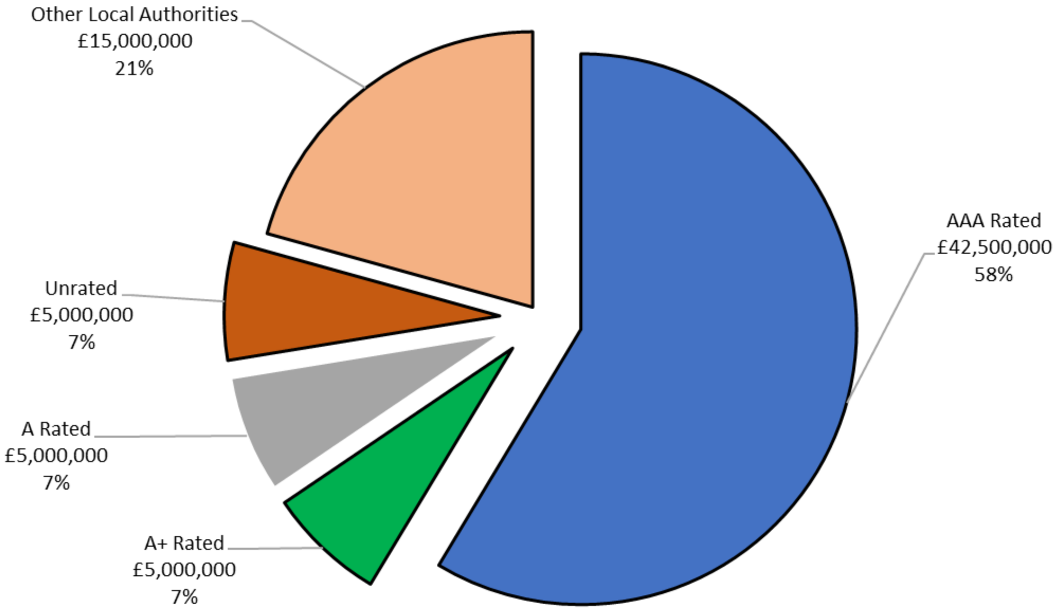
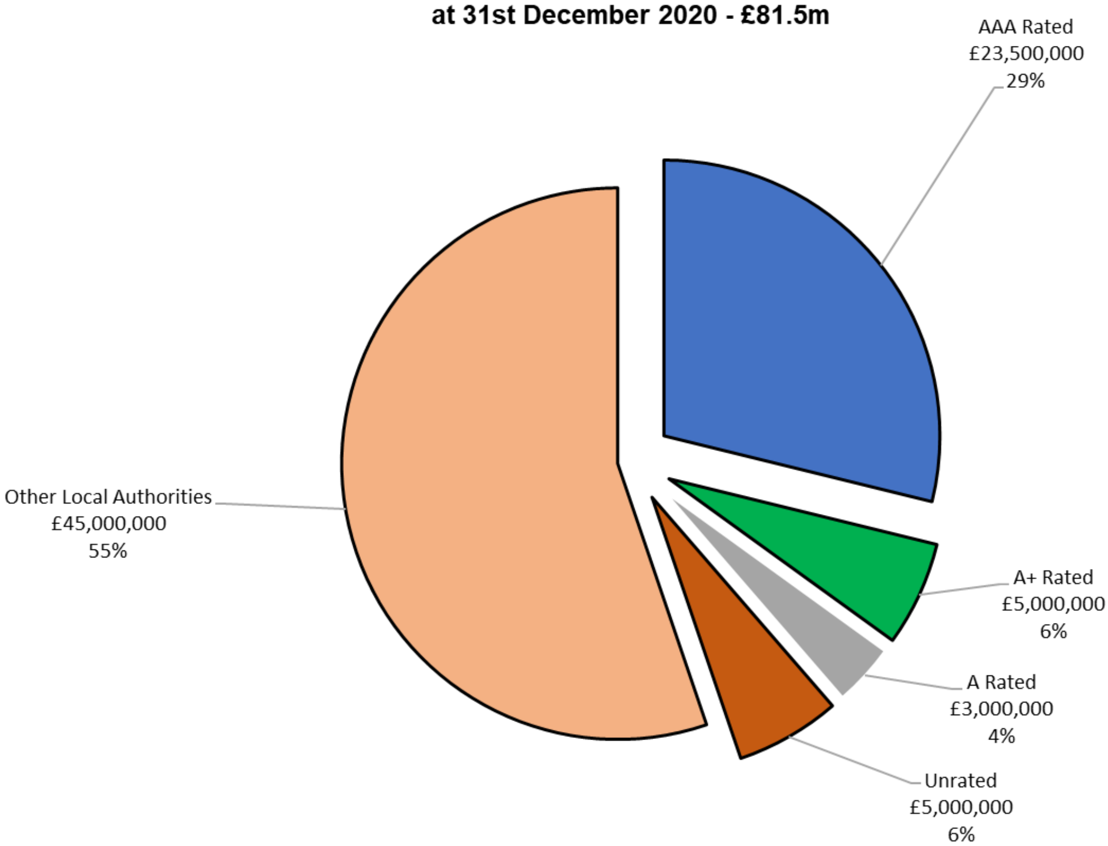


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2020 - £81.5m



APPENDIX 3

Average rate of return on investments for 2020/21

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	Performance against Benchmark %
April	0.46%	0.03%	+0.43%
May	0.60%	0.00%	+0.60%
June	0.58%	-0.02%	+0.60%
July	0.54%	-0.01%	+0.55%
August	0.51%	-0.02%	+0.52%
September	0.45%	-0.02%	+0.47%
October	0.36%	-0.03%	+0.39%
November	0.33%	-0.03%	+0.36%
December	0.32%	-0.04%	+0.36%
January	0.23%	-0.04%	+0.27%
February	0.28%	-0.04%	+0.32%
March	0.32%	-0.03%	+0.35%
Average	**0.41%**	**-0.02%**	**+0.43%**

APPENDIX 4
Council's External Borrowing at 31st March 2021

Lender	Amount outstanding	Start date	End date	Interest rate
Long term				
PWLB489142	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	17,208,385	20/06/2016	20/06/2041	2.36%
PWLB508126	9,244,638	06/12/2018	20/06/2043	2.38%
PWLB508202	9,746,453	12/12/2018	20/06/2068	2.59%
PWLB508224	4,616,238	13/12/2018	20/06/2043	2.25%
PWLB505744	8,573,560	24/02/2017	15/08/2039	2.28%
PWLB505966	8,752,361	04/04/2017	15/02/2042	2.26%
PWLB506052	7,438,286	08/05/2017	15/02/2042	2.25%
PWLB506255	6,751,779	10/08/2017	10/04/2067	2.64%
PWLB506729	9,084,826	13/12/2017	10/10/2042	2.35%
PWLB506995	9,103,440	06/03/2018	10/10/2042	2.52%
PWLB506996	9,313,693	06/03/2018	10/10/2047	2.62%
PWLB507749	9,248,353	10/09/2018	20/07/2043	2.42%
PWLB508485	19,581,457	11/02/2019	20/07/2068	2.52%
PWLB509840	9,493,281	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	08/10/2004	08/10/2054	4.50%
Commerzbank AG Frankfurt*	10,000,000	27/04/2005	27/04/2055	4.50%
Medium term				
Gloucestershire C.C.	5,000,000	25/11/2019	25/11/2021	1.50%
Portsmouth C.C.	5,000,000	19/12/2019	19/12/2022	1.65%
Short term				
London Borough of Bromley	15,000,000	01/04/2020	01/04/2021	1.50%
Total Borrowing	**243,456,749**			

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for April to March 2021

Economic background:

The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.
The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2020/21 Outturn

April 2020 to March 2021	YEAR END POSITION			
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	ADV/FAV
Interest & Capital Financing				
- Debt Costs	8,789	7,433	(1,355)	FAV
- Internal Repayment of Loan Charges	(9,001)	(9,501)	(500)	FAV
- Ex Avon Debt Costs	1,060	1,027	(34)	FAV
- Minimum Revenue Provision (MRP)	7,296	6,894	(402)	FAV
- Interest on Balances	(466)	(498)	(32)	FAV
Total	**7,678**	**5,355**	**(2,323)**	**FAV**

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	23rd September 2021	AGENDA ITEM NUMBER
TITLE:	Internal Audit – Update Report	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Audit Reviews Position Statement (2021/22)		

1 THE ISSUE

1.1 This report is to provide an update on the work of the Internal Audit team and progress made in delivering the Annual Audit Assurance Plan 2021/22 which was presented and approved by the Committee on 29th April 2021.

2 RECOMMENDATION

2.1 The Corporate Audit Committee notes the progress in delivery of the 2021/22 Annual Audit Assurance Plan.

3 THE REPORT

3.1 The Annual Internal Audit Plan for 2021/22 was presented to the Corporate Audit Committee on the 29th April 2021. Previously we have provided a half year report in October / November, however based on the meeting dates of the Committee and the potential significant list of agenda items for the December 2021 scheduled meeting it was thought that it would be beneficial for an interim update report to be presented.

3.2 INTERNAL AUDIT WORK UPDATE

2020/21 Internal Audit Plan Work Carried Forward

3.2.1 It is important to report to the Committee on audits in the 2020/21 Audit Plan which still had to be finalised in the early months of the new financial year (2021/22). There were seven 2020/21 Audit Reviews which required further work - of these six have now been issued as Final Reports and one is currently awaiting management comments to enable the report to be finalised.

Audit Heading	Status	Assurance Level	Recommendations	
			Made	Agreed
Waste Collections - Income	Final	3	8	8
Revenue Estate - Service Charges and Tenant Management Relations	Final	2	6	6
Waste - Transfer Station - Weighbridge	Final	3	1	1
IT Audit - Laptop Secure Configuration Management	Draft	3	5	N/A
IT Audit - Electronic Service Delivery - Revenue & Benefits	Final	4	6	6
IT Audit - Helpdesk – Incident and Problem Management	Final	4	5	3
Housing Benefits Processing Claims (& Overpayments)	Final	4	2	2

3.2.2 The Revenue Estate Service Charges and Tenant Management Relations review identified several areas for improvement - the key areas of concern were debt management (assessed as poor) and the lack of documented policies and procedures to guide staff increasing the likelihood of inconsistent processing of service charges, loss of income and non-compliance with legislation. The lack of documentation to provide guidance to staff was considered even more important as there was a reliance on one member of staff who had developed knowledge over a period of time (potential service continuity risk). In terms of debt management as at the date of the audit the outstanding debt attributed to Service Charges was £380,943 a significant increase from £112,014 in 2018.

3.2.3 A Property Services Review (being overseen by the Property Services Steering Group) is underway and debt management is a particular area being reviewed by one of the Commercial (Revenue) Estate Workstreams. The Interim Head of Property Transformation recently advised Internal Audit that a Property Income Recovery/Debt Management Strategy is to be presented to the Property Review Project Board on the 28th October 2021. If this is agreed by the Board it will need to be reported to Cabinet and formally approved for implementation.

2021/22 Internal Audit Plan Work

3.2.4 In terms of the 2021/22 Internal Audit Plan it recorded 36 areas to audit and provide assurance to the Audit Committee and Council. Appendix 1 records progress to the 1st September 2021.

3.2.5 Three of the areas for audit have got to report stage and another 10 audits are recorded as 'Work-In Progress'. In addition to that we have contacted management and agreed scope and start dates for another 7 reviews.

3.2.6 For the three reported audits they were all assigned a Level '4' Good Assurance Level:

1) Adult Social Care Grant Funding Management – Covid 19 Funding

2) Avon Pension Fund – Pension Payroll

3) Traffic Signals & Intelligent Network

3.2.7 Five of the ten audits recorded as 'Work-In-Progress' is related to the Covid-19 Funding being managed by the Council. We will be reporting on our finding during September and early October. In terms of the review on Adult Social Care Grant Funding as stated in 3.2.6 a Good / Substantial Assurance rating was provided. Grant funding, in excess of £7M was received and distributed between 13th May and 30th September 2021. Strengths recorded in the audit report included:

• Grant funding deposits have been received by the Council from the DHSC in full in line with published grant allocations across all funds.

• The Council has calculated direct funding to providers accurately based on the conditions of each of the grant awards.

• Grant funding had been passed to the providers in line with the timescales prescribed in the grant funding conditions.

• Discretionary funding allocations have been used to support the purpose and measures in compliance with grant conditions.

• The Council has implemented robust systems in terms of ensuring care providers are clear in terms of the purpose of each of the grants, the conditions attached to the funding, and measures that can be supported.

• The Council have implemented robust processes to ensure that assurances are obtained from the care providers that conditions of funding are met and continue to be met for the duration of the grant period.

• The Council has submitted information and financial returns to the DHSC in line with prescribed timescales set out in the conditions of the grant.

• Regular Project Programme Reports are provided to the SLT outlining the funding that has been received by B&NES along with how each grant has been administered. In addition, these reports are supported with details of the amount of funding that has been committed and paid to either individual providers or projects run directly by the Council.

There were 4 Medium Risk Weakness reported and management agreed to implement these by the end of September 2021.

3.2.8 In addition to audit reviews recorded in the approved Internal Audit Plan the Internal Audit Team has carried out other work:

a) Grant Certification Work – During April to June the Internal Audit team is required to carry out a significant amount of grant certification work. Twenty-one grant certification reviews taking up in excess of 41 audit days. This generally related to funding received from WECA and government departments.

b) Co-ordinating the work related to the National Fraud Initiative. This consists of directly reviewing matched data records and also liaising with Officers within services who have been tasked with reviewing data matching reports provided by the Cabinet Office.

c) Follow-Up of previous years Audit Report recommendations (see 3.3 below)

d) Responding to reports of financial irregularity which require advice/ investigation (see 3.4 below).

d) Continuing to support Adult Social Care Grant Funding – secondment of a member of the team to manage the receipt and payment of grant funding to care providers and the completion of associated government returns.

3.3 **Implementation and Follow-Up of Audit Report Recommendations**

3.3.1 Since the beginning of the year the Internal Audit team have carried out 10 Audit 'Follow-Ups' (see table below). It is pleasing to be able to report to Audit Committee that the 'Follow-Up' reviews have confirmed that management have largely implemented all audit recommendations. There were a limited number of recommendations that had not been implemented but where this was identified management provided assurance that the recommendations would be implemented based on revised implementation dates.

Audit Report	Reported Assurance Level
19-001B Avon Pension Fund – Scheme of Delegations	4 Substantial Assurance
19-002B Avon Pension Fund – COP14 (Data Protection)	4 Substantial Assurance
19-017B Street Lighting Procurement	3 Reasonable Assurance
19-026B Parks Traded Services	2 Limited Assurance
19-029B Safer Recruitment	2 Limited Assurance
19-031B Taxi Licensing	4 Substantial Assurance
19-035B CCTV – Operational Management	2 Limited Assurance

19-036B Avon Pension Fund - iConnect	4 Substantial Assurance
20-021B Heritage Retail – Purchasing & Stock Control	5 Full Assurance
20-030B Building Control	4 Substantial Assurance

3.3.2 The findings and conclusions of the three audit reports 'followed-up' which had an Assurance Level 2 'Limited Assurance' rating, were reported to this Committee on the 30th July 2020 - as it had previously been agreed that all Level 1 and 2 Assurance Rated reports should be brought to the attention of the Committee.

3.3.3 In terms of these three reports the 'Follow-Up' reviews concluded as follows:

1. CCTV – Operational Management – All 5 High & 5 Medium Risk Weakness Recommendations had been implemented.

2. Safer Recruitment - All 2 High & 4 Medium Risk Weakness Recommendations had been implemented.

3. Parks Traded Services – 4 out of 5 High Risk Weakness Recommendations and all Medium Risk Weakness Recommendations implemented. In terms of the single High-Risk recommendation which was not implemented this is being raised with the Director of Place and Assistant Director Environmental Services. This was related to the maintenance, dissemination and operation of documented procedures and a specific query related to the reconciliation of income (reconciliation of kiosk till records to income banked by the Cash Collectors).

3.4 **Investigations / Whistleblowing**

3.4.1 During the first 5 months of 2021/22, the service has only had two reports of financial irregularities or financial loss where the Internal Audit team have been required to provide input to ensure that the matter is fully investigated and that any improvements to the systems of internal control are implemented. One of the cases is still under investigation, so it is not appropriate at this time to report on this case. The second case was related to an email scam which resulted in a payroll fraud and a financial loss. The crime was reported to Action Fraud and anti-fraud training was provided by a member of the Internal Audit team to HR and Payroll team members. We are satisfied that the internal control framework has been enhanced based on the provision of this training.

3.4.2 . There have not been any Whistleblowing Cases to investigate during the year to date.

4 STATUTORY CONSIDERATIONS

4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIFPA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 There are no direct resource implications relevant to this report.

6 RISK MANAGEMENT

6.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage of risks arising from COVID-19. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.

6.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

9 OTHER OPTIONS CONSIDERED

9.1 No other options to consider related to this report.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

Contact person	*Andy Cox (01225 477316) Jeff Wring (01225 477323)*
Background papers	*Reports to Corporate Audit Committee –30th July 2020 - Audit & Assurance Annual Report 2019/20; 29th April 2021 - Internal Audit Plan - 2021/2022*.
Please contact the report author if you need to access this report in an alternative format	

Audit Reviews Position Statement (as at September 2021)   Appendix 1

Ref	Audit Review	Status	Assurance Level	Recommendations Made	Recommendations Agreed
21-001B	Covid19 - Restrictions - Business Grants	WIP			
21-002B	Covid19 - Adult Social Care Grant Funding Management	Final	4	4	4
21-003B	Covid19 - Supplier Relief - Adult Social Care Providers	WIP			
21-004B	Covid19 - Contain Outbreak Funding	Not Started			
21-005B	Covid19 - Next Steps Accommodation Short & Long Term	WIP			
21-006B	Clean Air Zone (Income & Interfaces)	WIP			
21-007B	Covid19 - DWP Winter Support Grants (incl Free School Meal Vouchers)	WIP			
21-008B	Covid19 - Emergency Assistance Grant for Food and Essential Supplies	WIP			
21-009B	In-Year Budget Management & Forecasting	Not Started			
21-010B	Property - Revenue Estate - Debt Recovery & Write Offs	Not Started			
21-011B	IT Audit - Secure Configuration (New laptops)	Not Started			
21-012B	IT Audit - Cloud and Hosted Systems Management (Identity and Access Management)	WIP			
21-013B	Highways Interventions & Drainage	Not Started			
21-014B	Joint Agency Panel (JAP)	Not Started			
21-015B	Climate & Nature Emergency - Response	Not Started			
21-016B	IT Audit - Patch Management (Laptops)	Not Started			
21-017B	Community Resource Centre & Extra Care Housing - (CRC Phase 2)	WIP			
21-018B	Avon Pension Fund - Business Continuity	Not Started			
21-019B	Property - Revenue Estate - Asset Utilisation	Not Started			
21-020B	Tenancy Fraud	WIP			
21-021B	Property - Revenue Estate - Management of Tenant Responsibilities (maintenance & structural alterations)	Not Started			
21-022B	Health Safety & Wellbeing - Managing the Risks	Not Started			
21-023B	Property - Revenue Estate - Property Acquisitions	Not Started			
21-024B	Avon Pension Fund - Pensions Governance COP 14	Not Started			
21-025B	Children Disabilities	Not Started			
21-026B	Property - Revenue Estate - Rent Reviews	Not started			
21-027B	Avon Pension Fund - Pensions Payroll	Draft	4	5	
21-028B	Avon Pension Fund - Digital Strategy Review	Not Started			
21-029B	Traffic Signals & Intelligent Network (Contract Management)	Draft	4	5	
21-030B	GLL Contract Management - Governance	Not Started			
21-031B	IT Audit - Incident Response Plan	WIP			
21-032B	IT Audit - IT Asset Management (Laptops)	Not Started			
21-033B	Governance - Decision Making	Not Started			
21-034B	IT Audit - Capacity and Availability	Not Started			
21-035B	Alternative Learning	Not Started			
21-036B	Welfare Support	Not Started			