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Audit and Standards Advisory Committee

Tuesday 8 December 2020 at 6.00 pm

This will be undertaken as an online virtual meeting.

The press and public are welcome to attend this online virtual meeting. The link to attend and view the meeting will be made available here.

Membership:

Members
David Ewart (Chair)

Councillors:

Lo (Vice-Chair)
Donnelly-Jackson
Long
Naheerathan
Kansagra
Akram
Johnson

Substitute Members

Councillors:

Afzal, S Choudhary, Colacicco, Gbajumo, Kabir and W Mitchell Murray

Councillors:

Colwill and Maurice

Independent Members
Margaret Bruce

Independent Advisor
Vineeta Manchanda

For further information contact: Craig Player, Governance Officer
Tel: 020 8937 2082; Email: craig.player@brent.gov.uk

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Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

(a) **Employment, etc. -** Any employment, office, trade, profession or vocation carried on for profit gain.
(b) **Sponsorship -** Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
(c) **Contracts -** Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
(d) **Land -** Any beneficial interest in land which is within the council's area.
(e) **Licences-** Any licence to occupy land in the council's area for a month or longer.
(f) **Corporate tenancies -** Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
(g) **Securities -** Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

(a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party of trade union).

(b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

Agenda

Introductions, if appropriate.

Item		Page
1	**Apologies for absence and clarification of alternate members**	
2	**Declarations of Interest** Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.	
3	**Deputations (if any)** To hear any deputations received from members of the public in accordance with Standing Order 67.	
4	**Minutes of the previous meeting** To approve the minutes of the previous meeting held on 08 September 2020 as a correct record.	1 - 6
5	**Matters arising (if any)** To consider any matters arising from the minutes of the previous meeting.	
	Standards Items	
6	**Standards Report (including gifts & hospitality)** To receive an update on gifts and hospitality registered by members, and the attendance record for members in relation to mandatory training sessions.	7 - 20

Ward Affected:
All Wards

Contact Officers: Debra Norman
Director of Legal, HR, Audit & Investigations
Tel: 020 8937 1578
Email: Debra.Norman@brent.gov.uk

Biancia Robinson
Senior Constitutional & Governance Lawyer
Tel: 020 8937 1544
Email: Bianca.Robinson@brent.gov.uk

Audit Items

7 Treasury Management Mid-term Report 21 - 32

To receive an update on treasury activities for the first half of the financial year 2020/21.

Ward Affected:
All Wards

Contact Officers: Amanda Healey
Senior Finance Analyst
Tel: 020 89375912
Email: Amanda.healey@brent.gov.uk

8 Treasury Management Strategy 33 - 54

To receive the draft Treasury Management Strategy (TMS) for 2021/22 for consideration. The final version of the TMS incorporating the views of the Committee will be include in the annual budget setting report to be presented to Cabinet.

Ward Affected:
All Wards

Contact Officers: Amanda Healey
Senior Finance Analyst
Tel: 020 89375912
Email: Amanda.healey@brent.gov.uk

9 Audit Findings Report 2019/20 Action Plan Recommendations - Management Response 55 - 58

To receive an update on the management response to the 2019/20 external audit findings report.

Ward Affected:
All Wards

Contact Officers: Daniel Omisore
Deputy Director of Finance
Tel: 020 8937 3057
Email: Daniel.omisore@brent.gov.uk

10 Review of the performance & management of i4B Holdings Ltd and First Wave Housing Ltd 59 - 82

To receive an update on the recent performance, business plan, risk register and audit arrangements of i4B Holdings Ltd and First Wave Housing Ltd.

Ward Affected:
All Wards

Contact Officers: Sadie East
Head of Transformation
Tel: 020 8937 1507
Email: Sadie.east@brent.gov.uk

11 Internal Audit Quarterly Report 83 - 94

To receive an update on progress against the Internal Audit Plan for the period 01 May to 31 October 2020.

Ward Affected: All Wards	**Contact Officers:** Michael Bradley Head of Audit & Investigations Tel: 07920 581620 Email: Michael.bradley@brent.gov.uk

12 Counter Fraud Quarterly Report 95 - 102

To receive a summary of the counter fraud activity for 2020/21 up to Q2, and the impact of COVID-19 arrangements on the service.

Ward Affected: All Wards	**Contact Officers:** Michael Bradley Head of Audit & Investigations Tel: 07920 581620 Email: Michael.bradley@brent.gov.uk

13 Corporate Risk Register Update 103 - 114

To receive an update on the Council's Risk Management position and an updated Corporate Risk Register.

Ward Affected: All Wards	**Contact Officers:** Michael Bradley Head of Audit & Investigations Tel: 07920 581620 Email: Michael.bradley@brent.gov.uk

14 External Audit Annual Letter 115 - 140

To receive a report from Grant Thornton summarising the key findings arising from the work it has carried out at the Council and its subsidiaries for year ended 31 March 2020.

Ward Affected: All Wards	**Contact Officers:** Sophia Brown Senior Audit Manager, Grant Thornton Tel: 020 7728 3179 Email: Sophia.y.brown@uk.gt.com

15 External Audit Progress Report and Sector Update 141 - 172

To receive an update from Grant Thornton on progress in delivering its responsibilities as the Council's external auditors, along with a summary of emerging national issues and developments that may be relevant to

Brent as a local authority.

Ward Affected: All Wards	**Contact Officers:** Sophia Brown Senior Audit Manager, Grant Thornton Tel: 020 7728 3179 Email: Sophia.y.brown@uk.gt.com

16 Forward Plan 173 - 174

To consider and note the Committee's Forward Plan.

17 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.

Date of the next meeting: Thursday 11 February 2021

Brent

MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE
Tuesday 8 September 2020 at 6.00 pm

PRESENT: David Ewart (Chair), Councillor Long (Vice-Chair) and Councillors Donnelly-Jackson, Hassan, Naheerathan, Kansagra and Lo

Independent Advisor: Vineeta Manchanda

Also Present: Councillor McLennan (Deputy Leader and Lead Member for Finance)

1. **Apologies for absence and clarification of alternate members**

   Apologies were received from Margaret Bruce and Councillor Nerva. Councillor Nerva was substituted by Councillor Lo.

2. **Declarations of Interest**

   In relation to agenda item 7, Cllr Hassan declared that she was yet to attend the Audit and Standards Committee and the Audit and Standards Advisory Committee Induction Training session. In relation to agenda item 9 and in particular Brent Pension Fund, Cllr Donnelly-Jackson declared that she had an interest in divestment around climate issues.

3. **Deputations (if any)**

   None.

4. **Minutes of the previous meeting**

   Resolved

   To approve the minutes of the last meeting of the Committee held on 26 May 2020.

5. **Matters arising (if any)**

   The Committee was assured that no care homes within the borough had closed since its last meeting and that the Chief Executive was not aware of any in financial difficulty. It was also assured that care homes would be able to access free personal protective equipment (PPE) via the new Clipper online system. The Council would encourage care homes to use this system but would keep its own stock of PPE should they encounter any issues.

6. **Complaints & Code of Conduct**

   Debra Norman, Director of Legal, HR, Audit & Investigations, introduced a report on the annual review of the Members' Code of Conduct Complaints procedure and gave an update on the Local Government Association (LGA) draft Member Code of Conduct consultation. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- It was noted that historically the Committee was not informed of complaints unless they were upheld. As meetings of the Committee were held in the public domain, there was a risk of reputational damage for members if a complaint is not upheld and ultimately proved to be incorrect.
- The Committee suggested that the complaints summary presented at Audit & Standards Advisory Committee meetings should be made gender neutral to ensure the anonymity of members.

The Chair then thanked the Director of Legal, HR, Audit & Investigations, as well as the wider team of officers, for the report and clarifications provided.

Resolved

1. **To note the contents of the Complaints & Code of Conduct report.**

2. **To support the recommendation to the Audit & Standards Committee, as set out in the report, to approve the proposed changes to the Member Code of Conduct Complaints Procedure.**

7. **Standards Report (including gifts & hospitality)**

Biancia Robinson, Senior Constitutional & Governance Lawyer, introduced a report on gifts and hospitality registered by members, and the attendance record for members in relation to mandatory training sessions. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- Members were reminded that they could declare gifts and hospitality online as well as by paper. Details on how to do this were to be circulated to all members after the meeting.
- It was noted that Committee members would be offered any mandatory sessions not yet completed following Full Council. The Committee requested an attendance record for members in relation to mandatory training sessions to be brought to the next meeting.
- In response to a question from the Committee, it was noted that in-house training on unconscious bias was to be offered all council staff and members. It was to be provided alongside Step Up Hub, a local community based organisation.

The Chair then thanked the Senior Constitutional & Governance Lawyer, as well as the wider team of officers, for the report and clarifications provided.

Resolved

To note the contents of the Standards (including gifts & hospitality) report.

8. **I4B and Firstwave Housing Accounts and Audit Report**

Ravinder Jassar, Head of Finance, introduced a report on the progress of external audits of First Wave Housing and i4B. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- It was confirmed that there would be a synchronicity between the signing off of the I4B and Firstwave Housing external audits and the Council's external audits.
- It was noted that the letters of assurances from the Council were similar to that of last year and had been agreed with the external auditors.

Resolved

To note the contents of the I4B and Firstwave Housing accounts and audit report.

9. **Statement of Accounts 2019/20 & External Auditors Report**

Ben Ainsworth, Head of Finance, introduced a report on the Council's annual statement of accounts. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- In response to a question from the Committee, it was noted that there would be an impairment in the next financial year. This would effect the value of the Council's properties but would have no impact on the Council's usable reserves. Moreover, a change of this size would likely not affect the Council's overall borrowing power.
- It was noted that although the valuations of the Council's properties had been lower this year, it was not expected to have a negative effect on its credibility in the market when borrowing. When the Council's balance sheet was considered, it was in a relatively strong position. Generally, local authorities would borrow from the Public Works Loan Board (PWLB) which was likely to always be available and in terms of private borrowing, the sector was looked at favourably. The generation of cash via borrowing, as well as social value, was a selling point for lending to local authorities.

Sophia Brown, Senior Audit Manager at Grant Thornton, introduced a report highlighting the key issues raised by the Council's external auditors Grant Thornton. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- In response to a question from the Committee, it was noted that specific works on the Council's housing stock may not be something the external auditors would ordinarily look at during the audit. However, it would be covered as part of the wider additions review and any assurance work undertaken on the overall valuation of the dwellings.

- It was noted that the external auditors had used an external valuer who had broadly concurred with the Council's own valuations. The Committee suggested that more detail on what the external valuer had said and how they had come to their conclusions be included in future external audits.
- It was noted that the Council was unable to reconcile non-HRA expenditure charged to the CIES and the non-HRA housing benefit expenditure recorded in the Northgate system. The external auditors had recommended the Council fully reconciled its housing benefit expenditure per the Northgate system to housing benefit expenditure recorded in the general ledger on a regular basis.
- In response to a question from the Committee, it was noted that the level of materiality for senior officers' remuneration and related party transactions was set at £830,000 in line with the level of triviality in the main audit because the external auditors wanted to have a lower level of precision for detecting errors. If any errors were detected at that level, it would be considered a material finding. The triviality level would be 5% and any irregularities would be reported to the Committee.
- The Committee noted that COVID-19 had a significant impact on the normal operations of the Council. While the Council had been relatively financially stable beforehand, it was now entering a period of uncertainty which would have a significant impact on resources.
- In response to a question regarding the governance processes in place to ensure the Council would effectively deal with the financial impact of COVID-19, the Committee was assured that members had been regularly provided with information on where the Council's finances lie and the wider implications this may have going forward. The planning process had begun for next year's budget and was due to go to Cabinet in the winter and, as usual, would be reported to the Committee beforehand.
- It was also noted that a value for money conclusion would no longer be required by the external auditors in the audit of the Council's next financial statement. They would now be required to provide a separate comprehensive report, which would give a detailed commentary of the Council's value for money arrangements.
- The Committee was assured that all preparatory work to ensure the Council was ready to implement IFRS 16 requirements had been undertaken, and it did not expect any material impact to the Council's balance sheet.
- It was noted that the Council was in a relatively strong financial position considering its level of reserves. However, it was recognised that spending these reserves now would only lead to financial difficulty in the future and, as such, the Council needed to continue to run a tight ship. The strategy of strong reserves and the delivery of a balanced budget should continue.

Ravinder Jassar, Head of Finance, and Paul Dossett, Public Services Partner at Grant Thornton, introduced Brent Pension Fund's external audit report, in response to which there were no further comments or questions.

The Chair then thanked Grant Thornton and officer team for the reports and clarifications provided.

Resolved

1. **To note the key issues and recommendations highlighted in the reports.**
2. **To note the corrected audit differences.**

3. **To support the recommendation to the Audit & Standards Committee, as set out in the report, to approve the statement of accounts.**

4. **To support the recommendation to the Audit & Standards Committee, as set out in the report, to approve the letters of recommendation for both the Council's external audit and Brent Pension Fund's external audit subject to the final wording being agreed between officers.**

5. **To receive an update on the progress of internal control points at the appropriate later meeting of the Committee.**

10. **External Audit Progress Report and Sector Update**

Sophia Brown, Senior Audit Manager at Grant Thornton, gave a verbal update on progress in delivering its responsibilities as the Council's external auditors, along with a summary of emerging national issues and developments that may be relevant to Brent as a local authority. The Committee was then invited to raise questions on the report, which focused on a number of key areas as highlighted below:

- It was noted that there had been a recent independent review into the effectiveness of external audit and transparency of financial reporting in local authorities. There were a number of considerations for the Council. These included the creation of an Office of Audit Regulation and the requirement for auditors to report to Full Council annually, with there being a clear shift towards good governance and financial sustainability. The review could be found via the following link: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

The Chair then thanked Grant Thornton for the report and clarifications provided.

Resolved

To note the external audit progress report and sector update.

11. **Forward Plan**

The Chair drew the Committee's attention to its latest Forward Plan. It was noted that the Corporate Risk Statement would be presented at the next meeting of the Committee.

Resolved

To note the Committee's latest Forward Plan.

12. **Any other urgent business**

None.

The meeting closed at 7.25pm.

David Ewart
Chair

Brent	**Audit and Standards Advisory Committee** 8 December 2020
	Report from: **Director of Legal, HR, Audit & Investigations**

Standards Report (including quarterly update on Gifts & Hospitality, 01.07.20 - 30.09.20, and mandatory training)

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	1) Appendix A – Member Training Attendance record 2) Appendix B - Committee on Standards in Public Life Standards Matter 2 review – consultation questionnaire
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	(1) Debra Norman, Director of Legal, HR, Audit & Investigations (ext. 1578) (2) Biancia Robinson, Senior Constitutional & Governance Lawyer (ext. 1544)

1.0 Purpose of the Report

1.1 The purpose of this report is to update the Audit and Standards Advisory Committee on gifts and hospitality registered by Members, and the attendance record for Members in relation to mandatory training sessions.

2.0 Recommendations

2.1 That the Committee note the contents of the report.

3.0 Detail

Gifts & Hospitality

3.1 Members are required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50. This includes a series of gifts and hospitality from the same person that add up to an estimated value of at least £50 in a municipal year.

3.2 Gifts and hospitality received by Members are published on the Council's website and open to inspection at the Brent Civic Centre.

3.3 The Committee will recall that no gifts or hospitality were recorded during 01.4.20 - 30.06.20. The position remains the same for quarter three, 01.07.20 - 30.09.20. The primary explanation for this is the national lockdowns due to Covid -19. To ensure all Members were aware that gifts and hospitality could still be declared a note was placed in the Members Bulletin (11.09.20) asking Members to complete the form if they had any Gifts and Hospitalities to declare. For ease of reference, the note to members is copied here:

"3. Members' Gifts and Hospitality

(…..., Head of Executive and Member Services)

Members are reminded that under the Councillor Code of Conduct you are required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50. This includes a series of gifts and hospitality from the same person that add up to an estimated value of at least £50 in a Municipal Year.

Following a request made at this week's Audit & Standards Advisory Committee (which regularly monitors the registrations made), members are reminded that if you need to register the receipt of any gifts or hospitality this can be done by either using the attached form or by emailing details to ….. (Head of Executive & Member Services) via …….

……

Please find attached the register of Interest form here"

Member Training Attendance

3.4 As requested by this Committee, attendance records for Members in relation to mandatory training sessions has now become a standard reporting item.

3.5 The Committee is reminded of the following.

a) It is a requirement of the Members' Code of Conduct that all members' "*must attend mandatory training sessions on this Code or Members' standards in general, and in accordance with the Planning Code of Practice and Licensing Code of Practice"*.

b) The schedule for all mandatory sessions is ordinarily published and approved in the Council calendar at the May Annual Council meeting. There was no Annual Meeting in May 2020 in view of the Regulations which removed this requirement for this municipal year because of the COVID crisis. For 20/21, the Chief Executive agreed the annual calendar of meetings in consultation with the Political Groups. The annual calendar was then confirmed at the council meeting on 13.07.20. All internal training sessions attended by Members are published on the Council's Website and on individual Member profile pages.

c) Training session reminders are sent via email, calendar invitations, text messages and, on some occasions, direct telephone calls to Members. The same reminder process is employed for re-run(s) of sessions, where applicable, to take account of personal circumstances like work commitments and child care arrangements etc.

d) Currently, there are four mandatory training sessions provided for all Members and five mandatory sessions provided for Committee Members and, where appropriate, co-opted Members. These are set out in Table 1 below.

e) Mandatory sessions are provided annually and all Committee Members and substitutes are required to attend the relevant session. In addition, all other Members are invited to attend the sessions.

f) Since the Covid -19 crisis training has been considered virtually.

3.6 Table 1

Mandatory Training	**Attendee requirement**
1) Standards and the Code of Practice	All Members
2) Corporate Parenting & Safeguarding Children	All Members
3) Safeguarding vulnerable adults	All Members
4) Equalities Training	All Members
5) Planning	Committee Members only
6) Alcohol and Entertainment Licensing	Committee Members only
7) Scrutiny Induction	Committee Members only
8) Audit & Standards Committee and the Audit & Standards Advisory Committee induction training	Committee Members only
9) Brent Pensions Fund – Approach to responsible investment	Committee Members only

By way of an overview**:**

3.7 A new timetable was agreed and commenced in September 2020 following the annual meeting on 14.09.20. All the Committee Members for Planning, Alcohol & Licensing and Brent Pension Fund, and all Members for equalities have attended the mandatory training sessions.

3.8 The following relates to the number of Members who have not attended the new training sessions (as at the 18.11.20).

Mandatory all Member sessions:

- 3 (one member presently exempt) Members need to attend the Safeguarding Vulnerable Adults Training.

- 1 Member needs to attend the Corporate Parenting & Safeguarding.

Committee Member mandatory sessions:

- 2 Members need to attend the Scrutiny Induction training.
- 3 Members need to attend Audit and Standards Committee & Audit & Standards Committee Induction training
- 2 Members need to attend the Scrutiny- budget/finance training

3.9 For the Corporate Parenting & Safeguarding Children and Safeguarding Vulnerable Adults training, a 1-1 session with the officers will be organised for Cllrs Gill and Kelcher in December 2020, presently Cllr R. Patel is exempt from attending training sessions. Cllr Daly has been referred to the Chief Whip with respect to her non-attendance.

3.10 The Committee will recall from its last meeting that Unconscious Bias training (which included anti-Semitism and Islamophobia) was due to be delivered. This training took place on the 11.09.20. Due to the type of session (workshop) and discussion topics it was not recorded. The session was attended by 42 members. A list of members who were not able to attend is summarised in Appendix A (2 of 2). A further session will be delivered in 2021. At present this session is not mandatory.

3.11 The Committee may also wish to know that the Information Governance team has finished developing the Data Protection Act E-learning modules for Elected Members. This is intended to be disseminated to Members over the Christmas period and followed by a virtual session in February 2021.

3.12 In light of the Covid -19 mandatory training sessions delivered by zoom have been recorded. This has built in flexibility by:

- enabling Members not able to attend scheduled sessions to view the recordings;
- provided a resource for future use/reference;
- released officers' time, so they are not required to schedule repeat sessions.

3.13 Where Members undergo training by way of a recorded session, they are required to complete the said training and inform Member Services and the relevant training officer in advance of the next meeting of the committee for which they are a member of.

3.14 The committee should also be aware that going forward other recorded training sessions, where appropriate, will include sessions delivered by external trainers.

3.15 A summary setting out the sessions of mandatory training and Members names is attached as Appendix A.

<u>Complaints against Members</u>

3.16 The Committee will recall that at its least meeting it received a detailed summary of Standard complaints considered by the Monitoring Officer in the last 24 months.

3.17 The Committee is reminded complaints under the Member Code of Conduct (the Code) are submitted to the Monitoring Officer (Director of Legal, HR Audit and Investigations). Following consideration of the complaint the Monitoring Officer will decide the appropriate course of action in accordance with the Member's Code of Conduct Complaints Procedure, following consultation with the Independent Person where appropriate. During quarter three the following complaints have concluded.

1) A complaint was made concerning a number of matters raised in an email which had been circulated to all councillors and also been seen by the complainant. On balance of probabilities, it was found the Councillor did not breach the Code. The councillor had raised their enquiries properly in their capacity as a councillor and not in order to improperly disadvantage the business concerned because of issues with individuals involved in the business in their private life.

2) A complainant alleged that a councillor had been untruthful at a public meeting. It was held that the complaint did not "…. disclose sufficiently a serious potential breach of the Code to merit further consideration"; furthermore the complaint was "the same or substantially the same as a complaint previously dealt with" by the service area, although not under the Standards procedure.

3) An allegation was made that a councillor had beached the Code in relation to comments posted on a planning application. It was found the comments were provocative and unhelpful, but any finding of breach of the Code would be disproportionate on the facts.

4) An allegation was made that a councillor had breached the Code in relation to comments, posted online, in person as well as in relation to internal communications disclosed by way of an information request. It was determined that the complaint did not disclose "a sufficiently serious potential breach of the Code to merit further consideration" and, although this complainant may not be aware of this, it was "the same or substantially the same" as a complaint previously dealt with in relation to this particular councillor.

5) It was alleged the councillor made threatening and offensive statements. Upon assessment, this was not found to be the case and in turn, a finding that there has been no breach of the Code was made.

6) Allegations were made of a breach of the Member's Code of Conduct by Councillor M Butt and Cllr Sangani in relation to their attendance at Ealing Road Temple during a prayer and reflection event organised by the Brent Multi Faith Forum. An allegation that the councillors had brought their office or the council into disrepute was not upheld. Both councillors acknowledged that they had inadvertently breached the restrictions on such events in place at the time and were apologetic about how this may have appeared to the public. Councillor Butt apologised both on his Facebook page and in a press statement. Both he and Councillor Sangani have also given apologies to the Monitoring Officer, which have been posted on the council intranet page: https://www.brent.gov.uk/your-council/complaints/make-a-complaint-about-a-councillor/ .

Independent/Co-opted members

3.18 At the annual meeting on 14 September 2020 the term of office of the independent co-opted member of the committee for Standards was extended to the annual meeting in 2021. The terms of office of the three Independent Persons, William Goh, Kier Hopley and Nigel Shock were also extended to that date.

3.19 The recruitment process to make appointments at the Annual meeting in 2021 has commenced and the existing Independents have all been invited to apply if they wish. In mid-December an advert for the roles will go out and it is intended the interviews will take place early in 2021. Officers hope to notify the committee at its May meeting with the provisional appointments, with the said appointments being approved at Full Council a few days later.

Committee on Standards in Public Life launches Standards Matter 2 review

3.21 In September 2020, the Committee on Standards in Public Life (CSPL) launched its Standards Matter 2 review, which involves a landscape review of the institutions, processes and structures that are in place to support high standards of conduct. The review will assess best practice and highlight any themes and gaps in the way the Seven Principles of Public Life code of conduct are promoted and maintained. The Committee Chair, Jonathan Evans, stated: '*As well as sharing any lessons learned and best practice, we will consider whether there are gaps or issues that require further work. We want to check whether the Nolan principles are well understood, properly embedded and that they continue to reflect the standards expected by the public of those that serve them*.'

3.22 The consultation runs from the 22 September 2020 to the 18 December 2020 and seeks input from those with first-hand knowledge and expertise of the UK's system of regulating public standards. A copy of the CSPL consultation questions is attached as Appendix B. CSPL will also be carrying out research with the public to make sure they understand their expectations of those that serve them. They aim to report their findings to the Prime Minister in September 2021 with their recommendations and best practice guidance. We will keep the committee informed of the reviews progress.

4.0 Financial Implications

4.1 There are no financial implications arising out of this report.

5.0 Legal Implications

5.1 The Council, individual Members and co-opted Members are required to promote and maintain high standards of conduct in accordance with s27 of the Localism Act 2011. The attendance at mandatory training sessions is a means to achieve this and a requirement pursuant to the Brent Members' Code of Conduct as set out in Part 5, of the council's Constitution.

6.0 Equality Implications

6.1 There are no equality implications arising out of this report.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources/Property Implications (if appropriate)

8.1 Not applicable.

Report sign off:

Director of Legal, HR, Audit & Investigations

Summary of Member Mandatory Training Non- Attendance Record

Corporate Parenting and Safeguarding Children Mandatory All	Scrutiny Induction Mandatory for Committee Members ONLY	Audit and Standards Committee and the Audit and Standards Advisory Committee Induction Training Mandatory for Committee Members ONLY.	Safeguarding Vulnerable Adults Training Mandatory for All Members
Councillors Yet To Attend a Mandatory Training Session			
Cllr Mary Daly	Cllr Reg Colwill	Cllr Wilhelmina Mitchell Murray	Cllr Mary Daly
	Cllr Neil Nerva	Cllr Kana Naheerathan	Cllr Kieron Gill
		Cllr Reg Colwill	Cllr Matt Kelcher
			Patel, Ramesh (exempt)
1	**2**	**3**	**3**
Cllr Daly has been referred to the Chief Whip	The **Secrutiny Skills** induction took place on the 29 September 2020. The **Budget/Finance Scrutiny Skills** training on 18 November 2020, post AGM. The Budget scrutiny training was recored for the benefit of the Members who could not attend. The recording will be shared with the above Cllrs. They will have the opportunity to forward any questions they may have to relevant officers.	All members of the committee have now had training except for the above Cllrs, who could not attend the mandatory induction training on the 13 October post September AGM. Arrangements have been put in place for the above Cllrs to receive training by watching the recording of the training session delivered on the 13 October. They will have the opportunity to raise any questions they may have with M Bradley	A 1-1 session on will be organised for Cllrs Gill and Kelcher in December 2020 Cllr Daly has been referred to the Chief Whip

Unconscious Bias Training (11.11.20)
Councillors to attend -reschedueld workshop
Abdirazak Abdi
Amer Agha
Mansoor Akram
Jumbo Chan
Rita Conneely
Mary Daly
Tony Ethapemi
Ernest Ezeajughi
Anton Georgiou
Faduma Hassan Claudia Hector Arshad Mahmood Roxanne Mashari Lloyd McLeish Wilhelmina Mitchell Murray Joshua Murray Kana Naheerathan Rameshchandra Patel Ahmad Shahzad Ketan Sheth Anita Thakkar

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The Committee on Standards in Public Life

Standards Matter 2: Public Consultation

The Committee on Standards in Public Life is carrying out a landscape review of the institutions, processes and structures in place to support high standards of conduct. The terms of reference for the review are available on our website.

Respondents may want to familiarise themselves with CSPL's map of the UK's standards regulators which is available here.

This consultation runs from 11:00 on the 22 September 2020 to 17:00 on the 18 December 2020.

Anyone with an interest in public standards may make a submission. The Committee welcomes submissions from members of the public.

Replies to this consultation should be emailed to public@public-standards.gov.uk. Further details on how to respond are below.

Consultation Questions:

Question 1: Standards of Conduct in the UK

A. How well do you think ethical standards - as enshrined by the Seven Principles of Public Life - are upheld in public life today?

B. Do you believe that there have there been any notable shifts in approaches or attitudes to ethical standards in public life in recent years?

C. What do you see as the most significant threats to ethical standards in public life today?

Question 2: The Seven Principles of Public Life

A. Do the Seven Principles of Public Life accurately describe the appropriate ethical responsibilities for those in public roles, including both political and non-political office-holders?

B. Would you amend or replace any of the principles or their descriptors? If so, how?

Question 3: The UK's arrangements for regulating standards

A. Are you confident that the UK's arrangements for regulating ethical standards are robust and effective?

B. Are there any areas of public life where regulation on issues of ethical standards is not strong enough?

Question 4: Best practice in standards regulation

A. What makes an effective standards regulator?

B. Do the UK's standards regulators have the right powers and remit to act effectively?

C. Should the independence of standards regulators be enhanced and protected, and if so, how?

Question 5: Creating ethical cultures

A. How can the Seven Principles best be embedded within a public sector organisation's working culture?

B. What are the most significant obstacles to embedding high ethical standards in a public sector organisation?

How to make a submission:

Submissions can be sent either in electronic format or in hard copy.

Submissions must:

- State clearly who the submission is from, i.e. whether from yourself or sent on behalf of an organisation;
- Include a brief introduction about yourself/your organisation and your reason for submitting evidence;
- Be in word, rtf, or odt format, not PDF;
- Be concise – we recommend no more than 2,000 words in length; and
- Contain a contact email address.

Submissions should:

- Have numbered paragraphs; and
- Comprise a single document. If there are any annexes or appendices, these should be included in the same document.

It would be helpful if your submission included any factual information you have to offer from which the Committee might be able to draw conclusions, and any recommendations for action which you would like the Committee to consider.

The Committee may choose not to accept a submission as evidence, or not to publish a submission even if it is accepted as evidence. This may occur where a submission is very long or contains material which is inappropriate.

Submissions will be published online with any contact information (for example, email addresses) removed.

The Committee will publish anonymised submissions (where the name of the respondent and any references to named individuals are removed) where a respondent makes a reasonable request to do so.

Submissions sent to the Committee after the deadline of 17:00 on 18 December 2020 may not be considered.

We can only accept submissions via email. Please email your submission to: public@public-standards.gov.uk

If you have any questions, please contact the Committee's Secretariat by email (public@public-standards.gov.uk). If you have any questions you would prefer to discuss by telephone, please include your contact number in the email.

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Brent	**Audit & Standards Advisory Committee** 8th December 2020
	Report from the Director of Finance

TREASURY MANAGEMENT MID-YEAR REPORT 2020-21

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix 1: Treasury Management Indicators
Background Papers:	Treasury Management Strategy – Report to Full Council as part of the Budget Report – February 2020.
Contact Officer(s): (Name, Title, Contact Details)	Amanda Healy Senior Finance Analyst Email: Amanda.healy@brent.gov.uk Tel: 020 8937 5912

1.0 Purpose of the Report

1.1 This report updates Members on treasury activities for the first half of the financial year 2020-21.

2.0 Recommendation(s)

2.1 The Committee is asked to note the 2020-21 Mid-Year Treasury report.

3.0 Detail

Background

3.1 The Council's Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

3.2 The Code also recommends that Members be informed of Treasury Management activities at least twice a year. This update report therefore ensures the Council is embracing best practice in accordance with CIPFA's recommendations.

3.3 Treasury Management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.4 In addition to reporting on risk management, the Code requires the Council to report on any financial instruments entered into to manage treasury risks.

Economic Background

3.5 The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. At the end of the period, an agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

3.6 The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

3.7 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

3.8 GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains, this still only makes up half of the lost output.

3.9 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme.

3.10 In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate was expected to pick up sharply over the coming months with the planned ending of the job retention scheme in October however this has been mitigated by its extension. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

3.11 The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation-targeting regime. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

3.12 Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The economic outlook will continue to depend significantly on the road to recovery out of the pandemic and the impact of a second wave and a potential vaccine.

3.13 The movement in standard rates at which local authorities can borrow from the Public Works Loans Board (PWLB) on maturity loans is shown in the table below including the highest and lowest rates during the period.

PWLB Rates %

Period	Mar-20	Jun-20	Sep-20	Period Low	Period High
1 year	2.14	1.97	1.96	1.90	2.38
5 year	2.20	1.95	1.96	1.88	2.68
10 year	2.42	2.21	2.26	2.10	2.99
30 year	2.80	2.64	2.75	2.42	3.40

Debt Management

3.14 On 9th October 2019 the Public Works Loan Board (PWLB) raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Alternative sources of long term funding to long-dated PWLB borrowing are available and the Council successfully executed the debut private placement transaction in March 2020. Strong investor demand enabled the transaction size to be increased to £80m at a rate of 65bps below the equivalent loan obtained through the PWLB.

3.15 The Chancellor’s March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB’s future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields, the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB.

3.16 The consultation titled “Future Lending Terms” allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in “debt for yield” activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also raises the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances. The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

3.17 The Municipal Bonds Agency (MBA) revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.

As can be seen in the table below no new long term loans have been raised so far this year:

	Balance on 01/04/2020 £m	**Debt repaid £m**	**New Borrowing £m**	**Balance on 30/09/2020 £m**
Short Term Borrowing	133.0	118.0	30.0	45.0
Long Term Borrowing	465.8	2.2	0.0	463.7
TOTAL BORROWING	**598.8**	**120.2**	**30.0**	**508.7**
Average Rate of Borrowing %	3.6%	1.0%	0.3%	4.0%*

** £16m of the PWLB loans are referred to as Equal Instalments of Principal (EIP), whereby the Council pays down the loans in half-yearly equal installments over the lifetime of the loan. The marginal increase in the average interest rate can be attributed to the Council paying back its EIP loans and short-term borrowing. This is because the EIP loans have a much lower average interest rate of 2.62% and the short-term borrowing had an average interest rate of 0.93% compared with the rest of the debt, which is 5.04%.*

3.18 The Council’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council’s long-term plans change being a secondary objective.

3.19 In keeping with these objectives, new external borrowing was kept to a minimum of £30m to meet cash flow requirements. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Council considered it more cost effective in the near term to use internal resources and borrowing short-term loans to manage cash flow.

3.20 The Council has an increasing Capital Financing Requirement due to the elements of the capital programme funded by borrowing. An estimated borrowing requirement is determined by the liability benchmark, which takes into account the Council's usable reserves, planned capital expenditure and minimum revenue provision. This has shown that further borrowing will be required during 2020/21.

3.21 PWLB funding margins have fluctuated quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Council will evaluate and pursue these lower cost solutions and opportunities as they arise and will look to take advantage of the low borrowing rates for the HRA to provide certainty for its business plan.

3.22 The persistence of low interest rates (see para 3.13) means that it would be uneconomic to reschedule PWLB debt, because early retirement of the loan would incur a heavy penalty, to compensate the PWLB for having to lend the money on at lower rates. The cost of re-financing our loans under the Government's approach means is not economical however, this analysis might change if interest rates returned to historically normal levels.

3.23 The Council continues to hold £70.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarter.

Investment Activity

3.24 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £182.4m and £19.5m due to timing differences between income and expenditure. On 1st April 2020, the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £64.4m was temporarily invested in the UK Debt Management Account Deposit Facility. This money had all been disbursed to eligible businesses by the end of September.

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

3.26 The Council's investment position is shown in the table below.

	Balance on 01/04/2020 £m	Investments Repaid £m	Investments Made £m	Balance on 30/09/2020 £m	Average Rate of Return
Debt Management Account Deposit Facility	104.7	3,163.8	3,059.1	0.0	0.1%
Money Market Funds	5.0	250.0	269.1	24.1	0.1%
TOTAL INVESTMENTS	**109.7**	**3,413.8**	**3,328.2**	**24.1**	**0.1%**

3.27 Throughout the first three months of the pandemic, the Council moved the majority of its investments into highly secure deposits with the UK Debt Management Account Deposit Facility whilst the impact of financial markets was uncertain. The investments are made for a fixed duration to ensure liquidity. This has lead to a high value of investments made and repaid during the first half of the year. The Council also maintained £5m in high quality money market funds to ensure liquidity for urgent payments including procuring Personal Protective Equipment (PPE). As markets stabilised, the Council moved its investment balance back into money market funds.

3.28 The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

3.29 On 25th September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.

3.30 The inter-local authority market has remained above zero throughout the first half of the year but rates have remained extremely low. There is limited availability for investments with local authorities for less than one-month so the Council utilised money market funds to manage these short-term differences between income and expenditure.

3.31 There was a £85.6m downward movement in short-term investments as short-term borrowing matured throughout the first half of the year. Investment balances are expected to remain low over the next 6 months as the Council's internal resources have been utilised and new borrowing is required. The Council is reviewing its borrowing options which may include short-term loans, PWLB borrowing and forward borrowing.

3.32 Security of capital has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21. In accordance with the policy, new investments can be made with the following classes of institutions:

- A- or above rated banks;
- AAA rated Money Market Funds;
- Other Local Authorities;

- Housing Associations;
- UK Debt Management Office;
- Corporate Bonds
- Collective Investment Schemes (Pooled Funds)
- Real Estate Investment Trusts

A short summary of the investment products available to the Council along with an indication of relative risk is provided below:

3.33 The table below shows the different assets classes available to the Council for its investment portfolio together with the major driver of the return and a summary of the key risks for each asset class.

Asset Classes (approx. return)	**Cash (0.7%)**	**Bonds (2.5%)**	**Equities (4.1%)**	**Property (4.8%)**
Income driven by	Short term interest rates	Medium term interest rates	Dividends / share prices	Rental income / vacancies
Key Risk(s)	Bank defaults	Company defaults	Company performance and perception of future performance	Property prices, least liquid asset class

3.34 Detailed consideration of the other asset classes would need to be undertaken by the Council prior to investment in conjunction with its treasury advisors. However, it is fair to say that that Equities and Property classes tend to be considered over a longer time frame, which may not be suitable for the Council given its significant capital spending plans.

Risks

3.35 Regardless of the approach taken, the Council will be required to manage significant risks in relation to its treasury investment portfolio. Some key risks are: -

- Liquidity risk – the risk that the Council has funds tied up in long-term investments when it needs to use that money. Increasing the duration of fixed cash deposits increases liquidity risk, however this can be mitigated through good cash flow management.

  Mitigation – see Prudential Indicator 2 – Appendix 1

- Credit risk - the risk that a bank or other institution will not be able to pay back the money invested with it. For longer term investments, the Council is more exposed to credit risk. Should a counterparty's credit worthiness change, the Council may not be able to get all their money back or may face heavy penalties if it can do so.

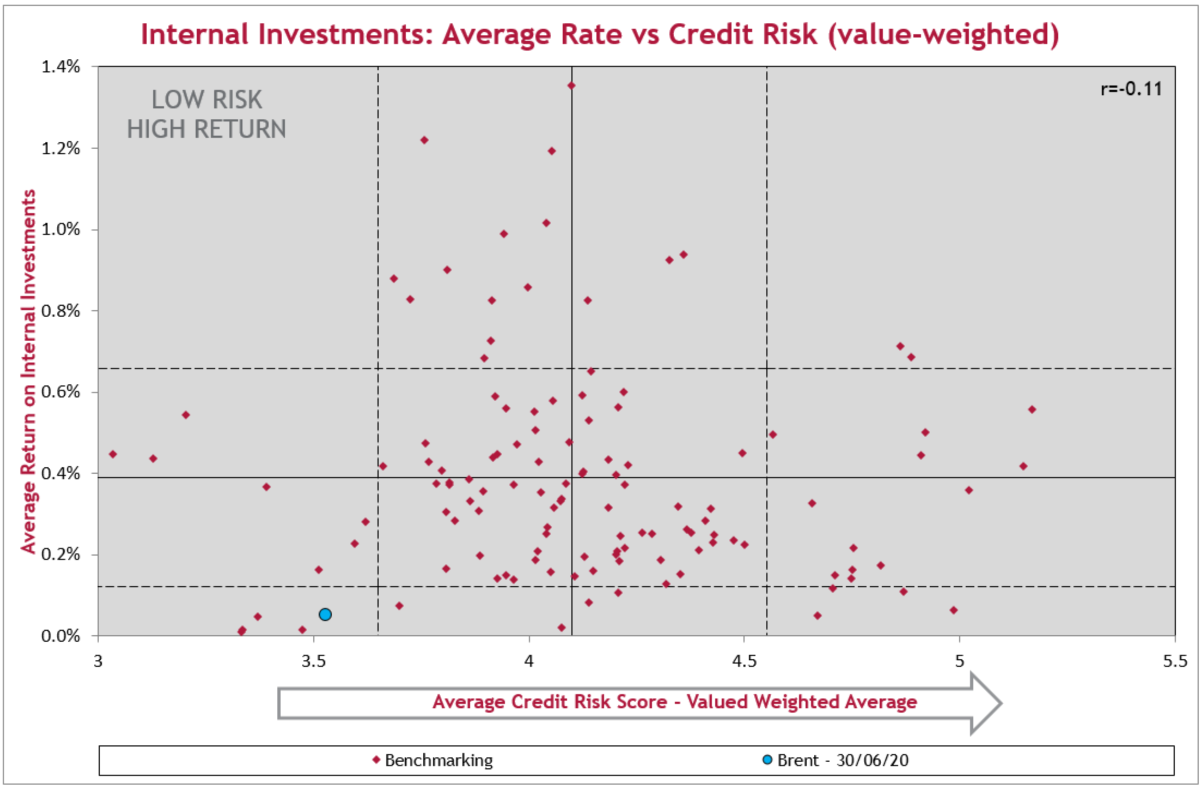
Mitigation – see Prudential Indicator 1 – Appendix 1

- Interest rate risk – the risk of the Council's budget being affected by unforeseen changes in interest rates. Longer term cash deposits increase this risk and will negatively affect the council should interest rates rise. On the other hand, the Council may benefit should interest rates fall.

Mitigation – see prudential Indicator 3 – Appendix 1

Benchmarking to other councils

3.36 The graph below shows a comparison between Brent's investment portfolio and that of Arlingclose's (the Council's treasury advisor) other Local Authority clients. Brent's portfolio has a very low risk profile compared with many of the others and has a much shorter dated, which also equates to a lower yield. However, many authorities are to the right of Brent, obtaining similar yields for much higher risk.



Budgeted Income And Outturn

3.37 The Council's external interest budget for the year is £23.5m, and for investment income is £7.6m. The average cash balances, representing the Council's reserves and working balances, were £107m during the period to 30 September 2020. The Council expects to receive significantly lower income from its cash and short-dated money market investments than it did in 2019/20 and earlier years due to the low interest rate environment and the immediate cash requirements, which only allow for short-term investments. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact.

Icelandic Bank Investment Update

3.38 A final distribution was made in August 2020 contributing to a total recovery rate of 99% on our initial £10m deposit. Under a cross-party guarantee, the Council has a small claim against LBI ehf as the full amount was not recovered. However the amount is unlikely to have a significant impact on the recovery rate once concluded.

Compliance

3.39 Officers confirm that they have complied with its Treasury Management Indicators for 2020/21, which were set in February 2020 as part of the Council's Treasury Management Strategy Statement (TMSS). Details can be found in Appendix 1.

Summary

3.40 In compliance with the requirements of the CIPFA Code of Practice, this report provides Members with a summary report of the treasury management activities during the first half of 2020/21. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4.0 Financial Implications

4.1 These are covered throughout the report.

5.0 Legal Implications

5.1 There are no direct legal implications.

6.0 Equality Implications

6.1 No direct implications.

7.0 Consultation with Ward Members and Stakeholders

7.1 None.

8.0 Human Resources/Property Implications

8.1 No direct implications.

__Report sign off:__

Minesh Patel
Director of Finance

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Appendix 1

Treasury Management Indicators

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

1. Credit risk indicator	Target	Actual
Portfolio average credit rating	A	A+

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 [three] month period, without additional borrowing.

2. Liquidity risk Indicator	Target	Actual
Total cash available within 3 months	£20.0m	£24.1m

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

3. Interest rate risk indicator	Limit	Actual
Upper limit on one-year revenue impact of a 1% rise in interest rates	£5.0m	£0.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5.0m	£0.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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:

4. Refinancing rate risk indicator	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing as at 30/09/2020	% Fixed Rate Borrowing as at 30/09/2020	Compliance with Set Limits?
Under 12 months	40%	0%	95	19%	Yes
12 months and within 24 months	40%	0%	2	0%	Yes
24 months and within 5 years	40%	0%	20	4%	Yes
5 years and within 10 years	60%	0%	5	1%	Yes
10 years and within 20 years	75%	0%	31	6%	Yes
20 years and within 30 years	75%	0%	137	27%	Yes
30 years and within 40 years	75%	0%	214	42%	Yes
Over 40 years	75%	0%	5	1%	Yes

Time periods start on the first day of each financial year. LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

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:

5. Principal sums invested for periods longer than a year:	Principal invested beyond 20/21 year end	Principal invested beyond 21/22 year end	Principal invested beyond 22/23 year end
Limit	£500m	£500m	£500m
Actual sums invested for longer than a year	£62m*	£62m*	£62m*

**The investment made is the equity element of the investment made in the Council's subsidiary company i4B Holdings Ltd that is also captured within the Council's capital programme.*

Brent	**Audit & Standards Advisory Committee** 8th December 2020
	Report from the Director of Finance
TREASURY MANAGEMENT STRATEGY 2021/22	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix 1: Draft Treasury Management Strategy 2021/22
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Amanda Healy Senior Finance Analyst Email: Amanda.healy@brent.gov.uk Tel: 020 8937 5912

1.0 Purpose of the Report

1.1 This report presents the draft Treasury Management Strategy (TMS) for 2021/22 for consideration by the Committee. The final version of the TMS incorporating the views of this Committee will be included in the annual budget setting report to be presented to Cabinet on 22 February 2021.

2.0 Recommendation(s)

2.1 That the Audit and Standards Advisory Committee considers and comments on the draft Treasury Management Strategy 2021/22 included in Appendix 1.

3.0 Detail

3.1 The Strategy sets out the framework for Treasury Management activity in 2021/22 and includes details on:

- Borrowing Strategy and sources of debt finance
- Investment Strategy, investment types and prescribed limits
- Treasury Management Indicators for 2021/22
- Alternative options/strategies
- External context
- Local context

3.2 The draft strategy is included in Appendix 1.

4.0 Financial Implications

4.1 The planned treasury management activity outlined in appendix 1 will result in capital interest costs as well as the generation of investment income for the Council. The Council's capital financing budget for 2021/22, including provisions for MRP (sums set aside for the repayment of debt) has been aligned with this strategy and will form part of the overall budget setting report scheduled to be presented to cabinet on 22 February 2021.

5.0 Legal Implications

5.1 There are no direct legal implications.

6.0 Equality Implications

6.1 No direct implications.

7.0 Consultation with Ward Members and Stakeholders

7.1 None.

8.0 Human Resources/Property Implications

8.1 No direct implications.

<u>Report sign off:</u>

Minesh Patel
Director of Finance

Appendix 1 - Draft Treasury Management Strategy Statement 2021/22

£X.X – Data to be added once available (31/12/2020)

Introduction

1.0 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested 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.

2.0 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 2017 Edition* (the CIPFA Code) which requires the 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.

External Context

3.0 The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements, will remain a major influence on the Council's treasury management strategy for 2021/22.

4.0 The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also increased its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink by -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

5.0 UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

6.0 GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

7.0 GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

8.0 The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

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

Credit Outlook

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

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

12.0 Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest Rate Forecast

13.0 The Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

14.0 Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

15.0 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

Local Context

16.0 On 31st December 2020, the Council held £X.Xm of borrowing (£X.Xm long term and £X.Xm short term) and £X.Xm of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

£m	31.3.20 Actual	31.3.21 Forecast	31.3.22 Forecast	31.3.23 Forecast
General Fund CFR	591.7	674.5	764.3	807.0
HRA CFR	230.1	275.0	291.7	315.3
Total CFR	**821.8**	**949.5**	**1,056.0**	**1,122.3**
Existing Borrowing	(598.8)	(492.1)	(456.5)	(455.1)
Borrowing required to meet CFR	**223.0**	**457.4**	**599.5**	**667.2**
Projected Usable Reserves	396.8	369.8	354.7	369.8
Projected Working Capital	(64.1)	(91.9)	(91.9)	(91.9)
Available Cash Reserves	**332.7**	**277.9**	**262.8**	**277.9**
Investments (or New borrowing)	**109.7**	**(179.5)**	**(336.7)**	**(389.3)**

17.0 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. This means the Council has minimised its interest costs by utilising internal resources over the short term instead of undertaking more expensive external borrowing. As our internal resources are being depleted, there is a need for the Council to undertake new external borrowing. The Council will need to borrow up to £389m over the forecast period.

18.0 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 1 shows that the Council expects to comply with this recommendation during 2021/22.

Borrowing Strategy

19.0 The Council currently holds £X.X million of loans, an increase of £X.X million on the previous year, due to the decrease in internal cash reserves and planned capital expenditure. The balance sheet forecast in Table 1 shows that the Council expects to borrow up to £179.5 million by 2021/22 however, this is largely dependent on how the capital programme progresses. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1.3 billion.

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

21.0 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. 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 short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The cost of carry exercise which will evaluate the cost of borrowing now to borrowing in the future will determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

22.0 The Council has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 as they raised concerns about local authority perusing risky debt-for-yield activities and utilising the PWLB's relatively cheap funding source to finance the projects. This made the PWLB a relatively expensive option as compared with market alternatives. The Treasury launched a consultation in March 2020 on the potential lowering of PWLB rates and the outcome was published as part of the Spending Review on 25th November 2020. Borrowing rates from the PWLB have been reduced by 1% which bring the levels back to Gilts + 1%. Only local authorities who are not purchasing investment assets primarily for yield can access this borrowing. The Council does not have any plans to invest in assets of this nature so will continue to have use of the PWLB.

23.0 The impact of the rate decrease has yet to be demonstrated in regards to alternative private providers however the Council has considered long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

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

25.0 In addition to above, the Council may borrow short-term loans to cover temporary cash flow pressures.

26.0 **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)
- any institution approved for investments (see below)
- 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 the local Brent Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

27.0 **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

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

29.0 **LOBOs:** The Council holds £70.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £41m of these LOBOs have options during 2021/22, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

30.0 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section 64 below).

31.0 **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 Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

32.0 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £182.4m and £19.5m due to capital expenditure utilising the Council's internal cash reserves. These balances are expected to remain low as the Council enters a borrowing period with cash available to invest for relatively short periods.

33.0 **Objectives:** The CIPFA Code requires the Council to invest its treasury 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.

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

35.0 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into higher yielding asset classes during 2021/22. This diversification will represent a continuation of the new strategy adopted in 2018/19. However, it is worth noting that this approach will be limited to the extent that the capital investment plans are delivered in line with current expectations. Should this prove to be the case, surplus funds will not be available to invest over longer durations as set out below.

36.0 Currently, the majority of the Council's surplus cash remains invested in short-term money market funds. The average rate of interest received on short-term investments during the year to December 20 was X%. Comparison data for other local authorities from Arlingclose's benchmarking club (which uses the data of 136 Local Authorities) places Brent around average compared to our peers - Appendix C. Due to the authorities borrowing requirement, there is unlikely to be scope to improve the short term investment returns achieved as liquidity of the surplus funds will play a key role.

37.0 The Council will maintain a minimum investment balance of £10m to ensure the Council complies with the requirements to be a professional client under MIFID II regulations.

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

39.0 **Credit Rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose long-term credit rating is no lower than A-. The Council uses the lowest rating quoted by the main rating agencies, as recommended by CIPFA. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. Within these criteria the Director of Finance will have discretion to accept or reject individual institutions as counterparties on the basis of any information which may become available.

40.0 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £200,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

41.0 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Any institution will be suspended or removed should any factors give rise to concern, and caution will be paramount in reaching any investment decision regardless of the counterparty or the circumstances. Should an entity's credit rating be downgraded so that it does not meet the Council's approved criteria then:

- No new investments will be made;

• Full consideration will be made to the recall or sale of existing investments with the affected counterparty.

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

43.0 Having an appropriate lending list of counterparties, remains critically important to protecting Brent’s investments. A list of extremely secure counterparties would be very small, and the limits with each would be correspondingly high. This would expose the Council to a risk of an unlikely but potentially large loss. This arises because the arrangements for dealing with banks in difficulty now require a loss to be imposed on various categories of liabilities of the banks to allow the bank to recapitalise itself and continue in business (sometimes referred to as bail in).

44.0 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

45.0 **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.

46.0 **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. There is no upper limit to the maximum credit loss that the Council could suffer in the event of a bail-in scenario. See section 54 below for arrangements relating to operational bank accounts. Investments in unsecured deposits will be limited to £20m.

47.0 **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. Investments with registered providers will be limited to £20m in 2021/22.

48.0 **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. The Council and its advisors remain alert for signs of credit or market distress that might adversely affect the Council. Investments in secured deposits will be limited to £20m.

49.0 **Money market funds (MMFs):** 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. 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. Deposits will not exceed 0.5% of the net asset value of the MMF. In addition, each Fund will be limited to a maximum deposit of £20m.

50.0 The investment strategy will provide flexibility to invest cash for longer periods in order to access higher investment returns. The upper limit for lending beyond a year is £50m. In practice, lending for more than one year will be only to institutions of the highest credit quality and at rates which justify the liquidity risk involved. Marketable instruments may have longer maturities, though the maturity will be considered in conjunction with the likely liquidity of the market and credit quality of the institution. Other than UK Central Government the Council may invest its surplus funds subject to a maximum duration of 25 years.

Alternative investment options will include:

51.0 **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. Although considered as pooled funds, MMF's are discussed separately in paragraph 34. The Council currently has no investments in Pooled Funds (other than MMFs) at present, but may make prudent use of them in the future. Investments in pooled funds will be limited to £20m in 2021/22.

52.0 **Real estate investment trusts (REITs):** 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. The risk with any investments in REITs is that shares cannot be withdrawn but can be sold on the stock market to another investor which leaves the Council open to market risk. Investments in REITs will be limited to £20m in 2021/22.

53.0 **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 Council's investment at risk.

54.0 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council banks with National Westminster Bank (NatWest) who meet the Council's minimum credit criteria. Should Natwest's creditworthiness deteriorate below the Council's minimum credit criteria, then as far as is consistent with operational efficiency, no money will be placed with NatWest and credit balances in the various Council accounts will be kept to a minimum level.

55.0 **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £370 million on 31st March 2021. In order that no more than 10% 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 and Council subsidiaries) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Table 2: Investment Limits

	Credit Quality	**Cash limit**	**Time Limit**
Any single organisation, except a Government entity	A- Or equivalent	£20m	n/a
UK Government	Any	Unlimited	50 years
Local Authorities & other government entities	Any	Unlimited	25 years
Banks (unsecured)*	A- Or equivalent	£20m	13 months
Building Societies (unsecured)*	A- Or equivalent	£20m	13 months
Registered providers and registered social landlords*	A- Or equivalent	£20m	5 years
Secured investments*	A- Or equivalent	£20m	5 years
Money market funds*	A- Or equivalent	Lower of 5% of total net assets of the fund or £20m	n/a
Strategic pooled funds*	A- Or equivalent	£20m	n/a
Real estate investment trusts*	A- Or equivalent	£20m	n/a
Other Investments*	A- Or equivalent	£50m	25 years

56.0 **Liquidity management:** The Council uses internal purpose-built cash flow modelling tools to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council aims to spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

TREASURY MANAGEMENT INDICATORS

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

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

Table 3: Credit risk indicator

Credit risk indicator	Target
Portfolio average credit rating	A

59.0 **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 three month period, without additional borrowing.

Table 4: Liquidity risk indicator

Liquidity risk indicator	Target
Total cash available within 3 months	£20m

60.0 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Table 5: Interest rate risk indicator

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

61.0 **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:

Table 6: Refinancing rate risk indicator

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	60%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%

30 years and within 40 years	75%	0%
Over 40 years	75%	0%

Time periods start on the first day of each financial year. LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

62.0 **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:

Table 7: Price risk indicator

Price risk indicator	**2021/22**	**2022/23**	**2023/24**
Limit on principal invested beyond year end	£50m	£50m	£50m

Related Matters

63.0 The CIPFA Code requires the Council to include the following in its treasury management strategy.

64.0 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

65.0 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

66.0 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

67.0 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

68.0 **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

69.0 **Markets in Financial Instruments Directive:** The MiFID II regulations took effect from January 2018 which saw the council reclassified as a retail client with the opportunity to opt up to professional client status. Retail clients have access increased protection however this would be balanced against potentially higher fees and access to a more limited range of products. The Council has opted up to professional client status with its providers of financial services, including advisors, banks, brokers and fund managers. Given the size and range of the Council's treasury management activities, the Director of Finance believes this to be the appropriate status for the Council's treasury management activities.

70.0 **Financial Implications:** The draft capital financing budget of £23.6m for 2021/22 has been calculated based on the reduction in balances available for investment and the increased external borrowing required.

71.0 **Other Options Considered:** The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Council believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 8: Alternative Strategies

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

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2020

Underlying assumptions:

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.

- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.

- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.

- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.

- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

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

- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.

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

- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

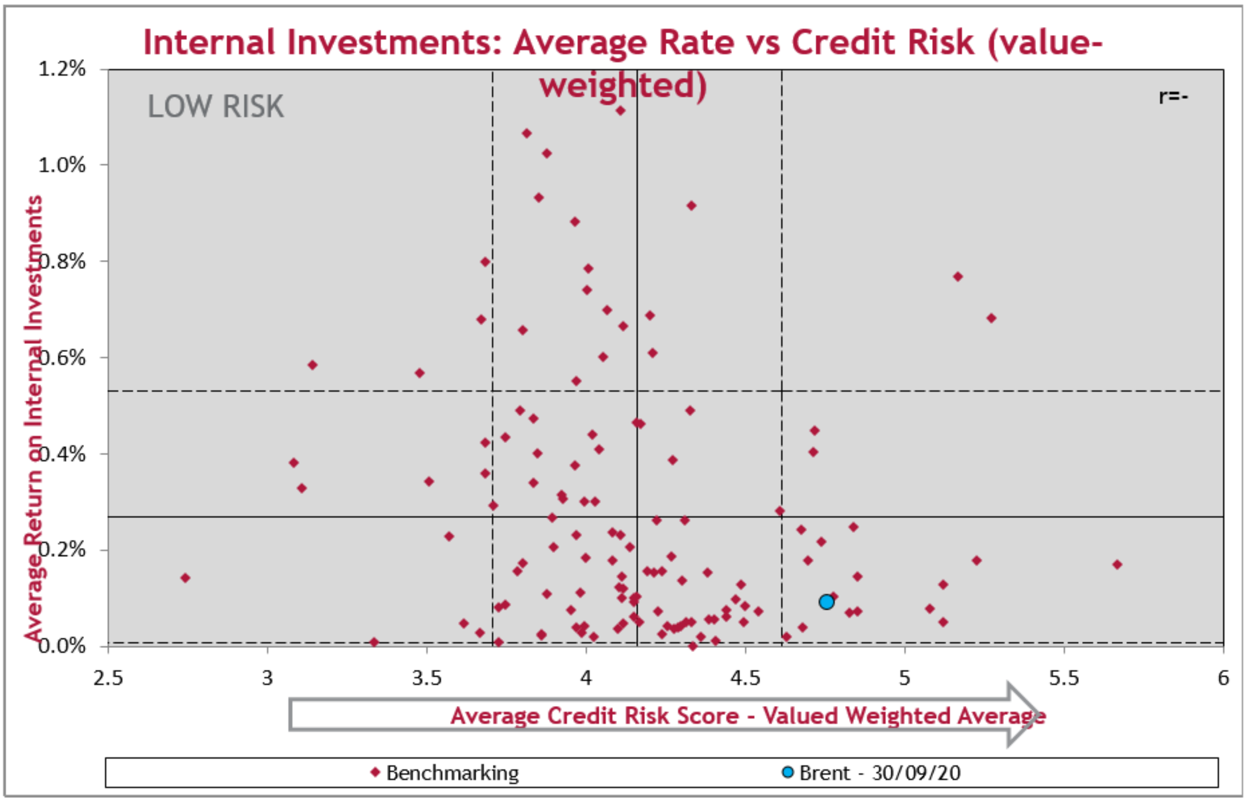
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B - Existing Investment & Debt Portfolio Position

	31/12/20 Actual Portfolio £m	31/12/20 Average Rate %
External borrowing:		
Public Works Loan Board	X.X	X.X
Local authorities	X.X	X.X
LOBO loans from banks	X.X	X.X
Other loans	X.X	X.X
Short Term Loans		
Total external borrowing	X.X	X.X
Other long-term liabilities:		
Private Finance Initiative	X.X	
Finance Leases	X.X	
Total other long-term liabilities	X.X	
Total gross external debt	X.X	
Treasury investments:		
Banks & building societies (unsecured)	X.X	X.X
Government (incl. local authorities)	X.X	X.X
Money Market Funds	X.X	X.X
Total treasury investments	X.X	X.X
Net debt	X.X	

Appendix C – Internal Investments: Average Rate vs Credit Risk



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Agenda Item 9

Brent	**Audit and Standards Advisory Committee** **8 December 2020**
	Report from the Chief Finance Officer
Audit Findings Report Action Plan – Management Response	

Wards Affected:	ALL
Key or Non-Key Decision:	KEY
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	OPEN
No. of Appendices:	Appendix 1: Management responses
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Daniel Omisore Deputy Director of Finance Email: Daniel.omisore@brent.gov.uk Tel: 020 8937 3057

1.0 Summary

1.1 Auditors are required by ISA 260 to communicate audit matters of governance interest to those charged with governance to ensure acknowledgement and understanding of any significant issues that have arisen from the audit.

1.2 The matters to be reported can include, but are not limited to;

- the overall approach and scope of the audit
- adjustments arising as a result of audit procedures
- material events or uncertainties
- weaknesses discovered in the internal systems and controls

1.3 For 2019/20 the external auditors identified an isolated number of issues during the audit which resulted in five recommendations being reported in the Audit Findings report.

1.4 This report provides an update to Audit and Standards Advisory Committee on the management response to those findings since September 2020.

2.0 Recommendations

2.1 The Committee is asked to note the progress made to date (as set out in appendix 1) in response to the issues identified in the 2019/20 audit findings report.

3.0 Detail

3.1 As part of the audit work for 2019/20, Grant Thornton included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters identified during the course of the audit are summarised below:

- IFRS 16 Implementation (readiness for new lease standard)
- Aged Collection Fund debtors and creditors (writing off uncollectable debt)
- Housing Benefit expenditure (reconciliation of Northgate/Oracle system)
- Creditors – purchase order accruals (closure of old PO accruals)
- Unallocated income (clearing unidentified income)
- Oracle security and access controls (security and access)

3.2 Further detail on each of the recommendations along with the management responses have been included in Appendix 1.

4.0 Financial Implications

4.1 There are no specific implications arising from this report. The cost of the audit work described in this report is contained within the annual external audit fee which amounted to £184 k in 2019/20. (2018/19 £175 k)

5.0 Legal Implications

5.1 No specific implications.

6.0 Equality Implications

6.1 No specific implications.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable

<u>Report sign off:</u>

Minesh Patel
Director of Finance
.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix 1 - Action Plan

Ref#	Title	Recommendation	Management response	Assessment
1	IFRS 16 Implementation	In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.	All leases on the balance sheet have been assessed. This included a detailed review of over 839 individual leases (covering lessees, lessors, intermediate, finance and operating leases). We also consulted extensively with service departments and had regular dialogue with CIPFA on certain technical matters. The work concluded that there will be no material impact on the council's balance sheet or accounts as a result of the change. The completeness of the assessment of the leases on the database will be ongoing to ensure that: • We have identified all arrangements that contains a lease per IFRS 16. • We have obtained sufficient and appropriate evidence to ensure that all liabilities are recorded and stated at the fair value. • Any new lease arrangements entered into (between the date of this exercise and implementation of the new standard) is considered. The assessment will carry on until March 2021, in time for the April 2021 scheduled implementation of the new standard. A complete set of working papers that demonstrate compliance with IFRS16 is now available for the auditors to review at their leisure.	Medium
2	Aged Collection Fund debtors and creditors	In our testing of the Council's Collection Fund debtors and creditors we have identified items over 6 years old with little prospect of clearing that should be considered for write off. Review debtor and creditor amounts over 6 years and consider for write off.	Work has begun to identify and write off uncollectable debt relating to Council Tax and Non-domestic Rates that are held on the relevant debtor systems for periods beyond 6 years. Some accounts are actively being paid and will remain. The process is due to be substantially complete by the end of December 2020 and will continue through until the end of the year. Credit balances for untraceable creditors will also be written back.	Medium

3	Housing Benefit expenditure	The Council is unable to fully reconcile non-HRA expenditure charged to the CIES and the non-HRA expenditure recorded in the Northgate system. Non-HRA expenditure recorded in Northgate is £3.6m higher than that recorded in the general ledger. Fully reconcile Housing Benefit expenditure per the Northgate system to Housing Benefit expenditure recorded in the general ledger on a regular basis.	The Housing benefit expenditure in Northgate and the general ledger have now been reconciled. Timing differences relating to rent weeks used for the benefit system and the 31st of March resulted in the discrepancy identified. A reconciliation between the rent system and benefits system on a quarterly basis together with an end-of-year accrual to adjust for timing differences will remove this discrepancy moving forward.	**Medium**
4	Creditors – purchase order accruals	Our testing of PO accruals identified 4/12 items that should have been cleared or cancelled. Processes should be in place to ensure that PO accruals are cleared or cancelled if they are no longer required.	Officers are reviewing how the procure to pay process is being used, and is working on strengthening the process to review accruals from the previous year to reduce the risk of invalid accruals being brought forward.	**Medium**
5	Unallocated income	In total there is £2.8m of unallocated income in the 2019/20 Accounts. Ensure that unidentified income received is traced to its source to ensure the income is valid and correctly classified.	Finance and the Transformation team have been working on a programme of changes to address this. We've reviewed how the processes currently are operated, and already developed a way of allocating responsibility using statistical analysis. These changes will be implemented over the next months, along with a push to shift receipts to channels that are automatically allocated to the right place.	**Medium**
6	Oracle security and access controls	Control weaknesses were identified in the security and access of the Council's Oracle system. IT audit findings to be reviewed by the Council's ICT Clienting and Applications team and any inappropriate access / responsibilities to be resolved/removed.	All recommendations in relation to oracle security and access controls were reviewed internally and responded to in October 2020. In a few cases where it is necessary to tolerate lesser controls such as generic built in passwords, management accept the associated risk of this and consider that this is low. All other recommendations arising from the audit have been implemented.	**Medium**

Brent	**Audit and Standards Advisory Committee**
	Report from the Chair of i4B Holdings Ltd

Report on i4B Holdings Ltd

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix 1: Company Risk Register
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Sadie East Head of Transformation Sadie.East@brent.gov.uk Tel: 020 8937 1507

1.0. Purpose of the Report

1.1. This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, business plan, risk register and audit arrangements.

2.0. Recommendation(s)

2.1. The ASAC is asked to note:

- Current performance.
- The update to the i4B risk register.
- The update on recent i4B audits, and progress towards implementing previous audit recommendations.
- The impact of Covid-19 on i4B's operations and business objectives.

3.0. Background

3.1. i4B Holdings Ltd (i4B; the Company) was established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council (the Council).

3.2. In November 2016, Cabinet agreed to establish its wholly owned investment company, i4B Holdings Ltd. The Company was set up with the purpose of acquiring, letting, and managing a portfolio of affordable, good quality PRS properties. Properties would be let to homeless families at Local Housing Allowance (LHA) levels. This would enable the Council to either prevent or discharge its homelessness duty and therefore reduce TA costs.

3.3. i4B's 2020/21 business plan was agreed by the Shareholder in February 2020. The business plan incorporates the following as i4B's strategic priorities for 2020/21:

- The PRS acquisition programme;
- The provision of key worker accommodation;
- Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land; and
- Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market.

4.0. Benefits of i4B

4.1. *Social Benefits*

4.1.1. As of September 2020, 280 Brent families, including 688 children, have been housed in i4B properties, the breakdown for which is below.

Table 1 – Breakdown of families directed to i4B as of September 2020

Previous Accommodation	no. of families	no. of children
Direct to i4B	51	118
Women's Refuge	2	15
TA Stage one – B&B	202	480
TA Stage two – Leased	25	75
Total	**280**	**688**

4.1.2. All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS accommodation which is generally of a lower standard and less secure. Also, with i4B as their landlord, tenants are safe from practices such as revenge evictions.

4.2. Financial Benefits

4.2.1. The Council receives financial benefits from i4B, mainly though reducing the use of temporary accommodation and supporting homeless families. The Council saves £1,960 per i4B property purchased and let. However, i4B does incur costs to the Council. At i4B's current portfolio of 300 properties, the net saving to the Council per year is circa £300k. This saving will increase as purchases increase.

4.2.2. The Council has also received the following one off financial benefits:

- PRS phase one loan: loan arrangement fee of £872k and non-utilisation charge of £330k
- PRS phase two loan: loan arrangement fee of £884k and non-utilisation charge of £408k

5.0. Update on Operational Performance

5.1. Performance measurement for i4B is based on acquisitions, conveyancing of properties, and on the housing management of the three contractors (Mears, Pinnacle, and Brent Housing Management).

5.2. As of i4B's last report to the Committee, the Company had 276 properties in its portfolio, purchased at an average cost of £356k. 254 of these properties were let. As of November 2020, i4B's portfolio has increased to 300 properties, purchased at an average cost of £363k, matching the target acquisition cost. 281 of these properties have been let. The rate of purchases has been slower than originally forecast due to a lack of properties available on the market that meet i4B's financial criteria and due to the impacts of Covid-19.

5.3. As of November 2020, i4B has 71 properties in negotiation and valuation, 24 properties in conveyancing, 5 properties in the delegated authority (final approval) stage, and 2 properties awaiting contract exchange.

5.4. The cumulative rent collection rate at November 2020 is 93.96%. This has decreased from 95.09% as of i4B's last report to the Committee. This is short of the business plan assumption of 95% and the business plan target of 98.5%. The 2019/20 financial year collection rate was 97.12%. This decrease is primarily due to the impact of Covid-19.

6.0. 2021/22 Financial Performance

6.1. i4B is forecasted to make a loss of £0.890m compared to a budget loss of £1.101m. The income and expenditure performance of i4B as of October 2020 is below.

Table 2 – Full Year Budget vs Forecast FY 2020/21

Financial Year 2020-21		Budget £	Forecast £	Variance £	Variance %
	Gross Rental Income	4,816,000	4,837,240	21,240	0%
	Void loss	(23,495)	(180,635)	(157,140)	669%
	Net Rental Income	4,792,505	4,656,605	(135,900)	-3%
Cost Categories					
FIXED SLA COSTS	Corporate SLA	275,000	244,000	(31,000)	-11%
	HRA SLA	413,000	427,920	14,920	4%
PREMISES RELATED EXPENDITURE	Major Works	21,000	30,000	9,000	43%
	Annual maintenance	333,000	232,092	(100,908)	-30%
	DMS management Fee	31,000	31,000	-	0%
	Electricity	1,000	1,000	-	0%
	Council Tax	41,000	41,000	-	0%
	Water And Sewerage	3,000	3,000	-	0%
	Service Charges	268,000	268,000	-	0%
	Long term maintenance	88,000	-	(88,000)	-100%
SERVICES	Insurance	62,000	62,000	-	0%
	Audit Fees	36,000	36,000	-	0%
	Legal Fees	38,000	38,000	-	0%
	Professional Services	215,000	205,000	(10,000)	-5%
	Other Revenue Costs	1,000	1,000	-	0%
	Subsistence / Catering	1,000	468	(532)	-53%
CONTRIBUTIONS TO PROVISIONS	Bad Debts	236,000	238,000	2,000	1%
	Void Contingency	(100,000)	(100,000)	-	0%
	Other Costs	-	-	-	0%
	Risk Provision	116,000	116,000	-	0%
	Total Operating Costs	2,079,000	1,874,480	(204,520)	-10%
	Operating Profit	2,713,505	2,782,125	68,620	3%
	Interest & Similar Charges	3,815,000	3,672,000	(143,000)	-4%
	Profit/(Loss) Before Tax	(1,101,495)	(889,875)	211,620	19%

6.2. Net rental income is £0.136m under budget. Overall income is down due to reduced purchases and the time taken to complete the initial letting of these properties. Void rent loss is forecast at £0.157m which is significantly more than the budgeted level of £0.023m. Allowances will need to be made for a higher level of void rent loss in the new plan with plans agreed as to how the figure can be reduced over the life of the business plan.

6.3. Operational costs are lower than expected, this is primarily due to reduced maintenance costs. Maintenance costs are forecast to be £0.180m under budget.

6.4. Interest costs are lower than anticipated. This is due to reduced property purchases.

7.0. Key Worker Housing – Block Purchase

7.1. As agreed in the 2019/20 Business Plan, the Company has purchased a block providing 153 units of 1 and 2 bedroom apartments, which will be let at 65% of market rate plus service charge to key workers.

7.2. There are a number of benefits that i4B and the Council will receive from the key worker block. These include:

- Attracting key workers to the Council and other public sector organisations in Brent.
- Retention of key workers.
- An increase in the amount of discounted market rented housing stock in the borough.
- Potential increase in value of the block over time.
- Diversification of i4B's business plan.

7.3. The Council has signed off on the key worker nomination policy, and the applications portal is due to open in late November. The first tenants will begin to move in late January 2021. This is in line with Business Plan assumptions.

8.0. 2021/22 Draft Business Plan

8.1. i4B is currently preparing its annual business plan. The Company's Board and Shareholder will feed into the development of the plan, and a final version will go to Cabinet for Shareholder approval in February 2021.

8.2. In the 2020/21 Business Plan, the Shareholder agreed that i4B would seek to grow and diversify its business operations and products to strengthen its balance sheet, spread risk and increase its capacity to do more for Brent. Throughout 2020/21 the Company has worked with the Council to progress these opportunities. The Company has been successful in progressing the purchase of key worker accommodation.

8.3. The Board has considered the 2020/21 Business Plan and five-year forecast against its own performance and external market factors. The Board recommends that the themes of growth and diversification identified in

Business Plans from previous years remain the correct priorities. The 2021/22 i4B Business Plan refines the general ambitions in terms of growth and diversification presented last year, to give a detailed overview of i4B's current opportunities, growth and financial forecast.

8.4. The strategic objectives, and key priorities for each of these across 2021/22, in the Business Plan are as follows:

- Increase the supply of affordable housing in the borough.
    - Purchase 60 street properties in 2021/22.
    - Work with the Council, Registered Providers and private developers to identify new build development opportunities.
    - Negotiate additional sources of finance for the Company.
- Run a viable business.
    - Review the Company's Investment Appraisal Criteria.
    - Review the viability of Home Counties properties.
    - Carry out a benchmarking exercise.
    - Reduce void times.
    - Develop an Asset Management Strategy for i4B.
    - Implement Oracle Cloud finance systems for the companies.
- Deliver safe and sustainable homes.
    - Establish a suite of compliance policies and standards to ensure legal compliance.
    - Establish a suite of performance monitoring metrics to give the Board assurance on compliance levels.
    - Carry out an audit of the new compliance suite.
- Provide a consistently good housing service.
    - Review our approach to assessing customer satisfaction.
    - Review the sustainability and affordability of rent levels.

9.0. Draft Business Plan Financial Implications

9.1 i4B is showing an improved financial position due to higher property acquisition numbers being included in the model and higher rent levels reflecting current LHA rates.

9.2 The higher acquisition number reflect purchase capacity based on forecast property prices of £390,000 per unit and the level of approved finance still available to the company. The increased rental levels reflect current Local Housing Allowance rates with inflation of these rates assumed at CPI from 2022/23 onwards.

9.3 The impact of these modelling changes is that i4B is forecasting a first year of profit from 2022/23 one year earlier than in the current model. The deficits accumulated from previous years are currently forecast to be eliminated in 2025/26.

9.4 It is important to note that the business plan model is still being developed and the review process has identified a number of key risk areas where further work is required over the coming months. Key risks and mitigation actions are set out in the following paragraphs.

9.5 Rental Income

9.5.1 The model is particularly sensitive to changes in forecast rent levels. LHA rates for 2022/23 are expected to be confirmed in January. The model assumes they remain static for 2021/22 and increase from 2022/23 onwards. LHA rates were increased substantially at the start of the COVID pandemic. There is a risk that rates are reduced or frozen for a period of time as part of the government's response to stabilising the public finances. As part of ongoing business modelling work, the model will be stress tested through a three-year inflation freeze and a reversion to pre-Covid-19 LHA rates.

9.6 Capital Investment Requirements

9.6.1 Capital expenditure is forecast based on initial estimates from the Asset Management Team. The estimates here are low with figures for the first 5 years of the plan but currently no allowances for the remaining 25 years. It is clear that there will be capital spend throughout the life of the plan.

9.6.2 Additional investment requirements are likely once the requirements of the Building Safer Futures regulatory regime are clear and once the requirements of future asset management standards to combat climate change are clear. Both these factors are likely to have significant capital investment requirements associated with them.

9.6.3 i4B is intending to commission a stock condition survey to establish the base line capital expenditure requirement and carry out further stock investment review work once the standards set by the Building Safer Futures regulatory regime and policies to address climate change are clear.

10.0. Risk Update

10.1. The Company's Risk Register can be found in Appendix 1.

10.2. The main risks the Company faces are detailed below:

- Changing Government policy on rents/benefits means i4B cannot increase rents at business plan assumptions.
- There is an insufficient volume of properties on the market that meet i4B's financial criteria.
- Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in i4B being non-complaint with its statutory obligations.
- High void rent loss due to long void turnaround times.

- Poor contractor performance and information control results in i4B properties being non-compliant with statutory H&S objectives.

10.3. The Company's risk register is reviewed quarterly. Throughout the risk register business plan assumption and mitigations are updated.

10.4. *Report on Croydon Council Housing Company Brick by Brick*

10.5. As part of its ongoing work, the Council and the i4B Board regularly review learning from other local authority commercial companies. Grant Thornton recently published a report on Croydon Council's financial position and related governance arrangements following the council's issuance of a Section 114 notice. The Council's wholly owned housing company, Brick by Brick, formed part of the report as the governance of the company added pressure to the Council's financial position.

10.6. Brick by Brick was set up to develop homes for sale using short-term loan finance. Development is a high-risk activity and development for sale carries an even higher risk and operates in a highly competitive commercial environment.

10.7. The report concluded that the complexity and risks related to the governance of subsidiary companies was not understood by officers or members, the Council did not demonstrate sufficient scrutiny of Brick by Brick, and ultimately that the company's financial business case should be urgently reviewed by the Council.

10.8. Specific issues included:

- Lack of challenge to annual business plans.
- No clear governance arrangements to ensure Council interests are safeguarded and business planning aims are achieved.
- No formal reporting mechanism between company directors and the Council.
- Lack of understanding of regulatory requirements.
- Lack of monitoring and reporting on compliance and compliance breaches.
- A situation whereby the Council was lending to Brick by Brick for the company to build housing, then taking out borrowing in order to purchase properties back from the company.
- Failure to file a set of statutory accounts.

10.9. In addition to this, Croydon Affordable Housing was set up with a 10% Council ownership stake, exercised through a holding company. The financing arrangements for this vehicle were complex and without adequate Council representation were not subject to effective scrutiny. The holding company failed to file its statutory accounts and was struck off the Companies House register, with its assets reverting to the Crown.

10.10. As a buy-and-hold rental model, i4B's business activities are fundamentally less risky than those of the Croydon housing companies.

10.11. i4B mitigates against the above risks. i4B has six-monthly meetings with the Chief Executive and Director of Finance who represent the Council as shareholder. An annual business plan is produced for i4B and agreed with Cabinet on behalf of the shareholder. The Board is unable to deviate from this plan without shareholder agreement. i4B also has a robust internal audit programme with the results of findings being reported to the ASAC. The company has produced and filed annual statutory accounts.

10.12. Furthermore, i4B has a financial model that guides all acquisitions. A net yield target is set for all i4B purchases. This ensures property purchases are viable and that the Company is be able to meet future financial commitments. The financial model is regularly reviewed to ensure its appropriateness and therefore the company's ongoing financial viability.

10.13. A 30-year business plan is in place for i4B, and this is reviewed annually. It is supported by audited accounts and monthly monitoring reports. Loans to fund asset acquisitions are on a long-term fixed rate basis which is an appropriate de-risking tool for financing the purchase of long term assets held for rent rather than for sale. Interest charges are included in the plan and are paid to the Council. As all loan finance is provided by the Council, the Council retains substantial freedom to restructure i4B's financial and ownership arrangements should it be necessary in order to secure the ongoing viability of the company or to safeguard the Council's financial interests.

10.14. Risks are aligned to the company's strategic objectives, and are reviewed and reported to the Board on a quarterly basis. The viability of the company is considered during the risk review as well as during the annual review of the business plan and when producing the annual statement of accounts.

11.0. Audit Update

11.1. An internal audit has taken place into the Management of the i4B/FWH Service Level Agreement. We are awaiting the final report on this audit.

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Ref	Strategic	Risk	Business Plan Objectives
1	i4B does not meet H&S requirements	Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in i4B being non-compliant with its statutory obligations.	Safe and Sustainable Homes
2	i4B does not meet H&S requirements	Poor contractor performance and information control results in i4B properties being non-compliant with statutory H&S objectives	Safe and Sustainable Homes
3	i4B does not meet H&S requirements	There is no affordable or technical solution for i4B to meet enhanced building standards	Safe and Sustainable Homes
4	i4B does not meet H&S requirements	i4B lacks the policies, knowledge, and governance arrangements to effectively monitor regulatory and legal standards on compliance.	Safe and Sustainable Homes
5	i4B cannot trade as a going concern	Changing Government policy on rents/benefits means i4B cannot increase rents at business plan assumptions.	Running a Viable Business
6	i4B cannot trade as a going concern	Reductions and changes in market demand means i4B cannot increase rents at business plan assumptions.	Running a Viable Business
7	i4B cannot trade as a going concern	Tenant non-payment of rent increases due to unaffordability of rent.	Running a Viable Business
8	i4B cannot trade as a going concern	High void rent loss due to long void turnaround times.	Running a Viable Business
9	i4B cannot trade as a going concern	High Capital Programme Costs undermine the viability of the business plan.	Running a Viable Business
10	i4B cannot trade as a going concern	A lack of transparency around costs means i4B cannot effectively report on its costs.	Running a Viable Business
11	i4B cannot trade as a going concern	Company cash flow (capital and revenue) is insufficient to manage expenditure	Running a Viable Business
12	i4B cannot increase affordable housing supply	There is an insufficient volume of properties on the market that meet i4B's financial criteria	Increasing Supply of Affordable Housing
13	i4B cannot increase affordable housing supply	There is an insufficient amount of development opportunities that meet i4B's development criteria.	Increasing Supply of Affordable Housing
14	i4B cannot increase affordable housing supply	A lack of affordable financing options means i4B cannot fund acquisitions.	Increasing Supply of Affordable Housing
15	Drop in customer satisfaction and damage to reputation	Contractor Performance is not effectively managed and monitored leading to poor customer service	Providing an Excellent Housing Service
16	Drop in customer satisfaction and damage to reputation	Poor service delivery results and complaints management procedures give rise to low tenant satisfaction	Providing an Excellent Housing Service

Trigger	Likelihood	Impact	Score	Mitigation	Owner
Inadequate controls on record creation	4	5	20	Review asset records and the controls around creation and update. Produce a regular compliance report to Board covering all compliance requirements	Head of Property Services
Lack of KPIs and monitoring processes	3	5	15	Setting up effective monitoring processes on compliance	Head of Property Services
Changing legal obligations	2	4	8	Having accurate compliance reports and understanding areas of non-compliance and solutions for resolving them.	Head of Property Services
Lack of reliable monitoring reports to Board	2	4	8	To review policies, controls, and reporting arrangements	Strategic Support Officer
Change of government policy	3	3	9	Regular modelling and business plan reviews.	Senior Financial Analyst
Change in market demand	3	3	9	Regular modelling and business plan reviews.	Senior Financial Analyst
Change in market demand	3	3	9	Regular modelling and business plan reviews and effective recovery processes	Income and Sustainment Manager
Poor void management processes and reporting	4	3	12	Improved void management processes and reporting	Voids Manager
Poor stock condition and high compliance costs	1	5	5	Develop a costed asset management plan with viable options	Head of Property Services
Poor financial billing	2	4	8	Improved financial billing processes	Senior Financial Analyst
The Company does not acquire properties quick enough to generate a surplus	2	5	10	Guarantee from Council. Property acquisitions programme turning the organisation into a profit making one.	Strategy Delivery Lead
Change in market conditions	3	3	9	Regular review of market and financial viability model	Strategy Delivery Lead
Change in market conditions	3	3	9	Regular review of market and financial viability model	Strategy Delivery Lead
Change in market interest rates	2	3	6	Monitor market rates and agree financing options with the Council	Senior Financial Analyst
Not effectively managing the supply chain	2	3	6	Clear service standards, regular performance management, and engaging with supply chain	Strategy Delivery Lead
A lack of clear service standards and complaints management procedures means complaints are not effectively delay with.	2	3	6	Putting in place clear service standards and monitoring complaints performance.	Strategic Support Officer

Actions
Actions will be added for ASAC meeting.
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Review the business plan on an annual basis
Actions will be added for ASAC meeting.
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Brent	**Audit and Standards Advisory Committee**
	Report from the Chair of First Wave Housing Limited

Report on First Wave Housing Limited

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix 1: Company Risk Register
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Sadie East Head of Transformation Sadie.East@brent.gov.uk Tel: 020 8937 1507

1.0. Purpose of the Report

1.1. This report provides the Audit and Standards Advisory Committee with an update on First Wave Housing Limited's (FWH) recent performance, business plan, risk register and audit arrangements.

2.0. Recommendation(s)

2.1. The ASAC is asked to note:

- FWH performance.
- The update to the FWH risk register.
- The update on recent FWH audits, and progress towards implementing previous audit recommendations.
- The impact of Covid-19 on FWH's operations and business objectives.

3.0. Performance Update

3.1. FWH has 329 tenanted properties: 89 at social rent, 25 at intermediate rent, and 45 at PRS/market rent. FWH also has 170 Settled Homes. Settled Homes are a form of temporary accommodation. They are let on assured short hold tenancies, with rent levels slightly below LHA rates. When business plan surpluses are sufficient, properties will be converted on an incremental basis to social rents, on assured tenancies.

3.2. FWH's primary purpose is to provide good quality, affordable, secure, and well managed homes to Brent residents and contribute to Brent's Housing Strategy. It does this by managing, maintaining and improving its stock of 329 properties.

3.3. The annual rent roll is £4.2 million. There are also two commercial properties within the portfolio. FWH has not purchased any new properties; therefore, performance is only based on housing management.

Table 1 – FWH Stock Breakdown

Product Type	No. properties	Average Weekly Rent	Sum of Weekly Rent
General Needs	**89**	**£114.09**	**£10,154.35**
1 bed	23	£101.62	£2,337.37
2 bed	33	£111.12	£3,666.94
3 bed	23	£124.52	£2,863.95
4 bed	10	£128.61	£1,286.09
Intermediate Rent	**25**	**£300.48**	**£7,512.11**
1 bed	11	£283.33	£3,116.58
2 bed	14	£313.97	£4,395.53
Market Rented	**45**	**£285.42**	**£12,844.10**
1 bed	45	£285.42	£12,844.10
Settled Housing	**170**	**£298.99**	**£50,827.83**
1 bed	7	£263.21	£1,842.44
2 bed	141	£300.32	£42,345.53
3 bed	22	£301.81	£6,639.85
Grand Total	**329**	**£247.23**	**£81,338.39**

3.4. Performance is reported to the FWH Board on a monthly basis, and is measured against the Company's Key Performance Indicators. The below summarises current year to date performance. It also provides a comparison to the YTD figure from April 2020, as this was the data used when FWH last reported to the Committee.

3.5. Rent Collection

3.5.1. As of October 2020, the year to date cumulative performance outturn for rent collection is 95.43% against an annual target of 98.5%. This drop in collection rates is primarily due to Covid-19.

3.5.2. The Head of Housing & Neighbourhoods has attended the FWH Board meeting to discuss rent collection, and a FWH rent collection audit was undertaken in 2019/20. As a result of this, a rent arrears solutions system was built and has recently gone live. The system provides the rent team with more tools to analyse collection rates and allows problem accounts to be identified at an earlier stage. It is hoped that this will improve collection rates. Housing Management is also working with Brent Hubs to link tenants with financial inclusion advice to support them where needed.

3.6. Tenancy Verification Visits

3.6.1. No tenancy verification visits have taken place since April 2020 due to restrictions relating to Covid-19.

3.7. Voids

3.7.1. Underlying voids performance is below target and, in the current financial year, this has been exacerbated by the impact of Covid-19.

3.7.2. For minor voids, FWH's target is 35 days. For major voids, FWH's target is 72 days. The year to date performance as of September 2020 for voids is as follows:

- Settled Homes (Minor Void) – 54.9 days.
- Settled Homes (Major Void) – 107.8 days.

There have been no General Market Rent major or minor voids this year.

3.7.3. At the time of FWH's last report to the Committee, YTD void performance was as follows:

- General Market Rent (Minor Void) – 35.9 days.
- Settled Homes (Minor Void) – 33.65 days.
- Settled Homes (Major Void) – 94.2 days.

3.7.3. The Operational Director of Housing recently attended a Board meeting to discuss what actions were in place to address underperformance. BHM is currently reviewing options to increase the speed of the void process.

3.8. Urgent and Routine Repairs

3.8.1. The year to date performance as of September 2020 for urgent and routine repairs completed within 14 days is 85%, against a target of 85%. At FWH's last report to the Committee, the year to date repairs performance was 89%.

3.9. Emergency Repairs

3.9.1. As of October 2020, the year to date performance for emergency repairs completed within 24 hours is 98%, against a target of 100%. In March 2020, YTD performance for emergency repairs stood at 97%.

4.0. Update on Financial Performance

4.1. The Company is forecasting a loss of £0.109m against a budgeted loss of £0.018m. This will change to a surplus of £0.993m should the Council choose to implement the loan refinancing proposal as considered by the shareholder. If agreed the refinancing of loans is intended to contribute to the capital investment programme in the FWH stock including remediation works to Granville and Princess Road blocks. Underspends on operational budgets of £170,000 require further scrutiny and challenge to verify they will materialise.

4.2. Offsetting these gains are a net rental loss of £61,000. This is due to originally underestimating void rent loss, which has been impacted by Covid-19.

4.3. Table 2 – Full Year Budget vs Forecast FY 2020/21

FWH - Projected Forecast	Budget	Forecast	Variance	
	20/21	20/21	£	%
Rents				
Gross Rental	**4,270,000**	**4,343,788**	**73,788**	**2%**
Void rent loss	(21,000)	(155,796)	134,796	-642%
Rent Turnover	**4,249,000**	**4,187,991**	**(61,009)**	**-1%**
Operating Costs				
Audit Fees and Consultants	34,000	34,000	0	0%
Provision for Doubful Debts	127,000	127,000	0	0%
Leasehold Service Charges	309,000	261,799	(47,201)	-15%
Insurance	66,000	66,000	0	0%
Property Maintenance Costs	472,000	388,600	(83,400)	-18%
Subtotal	**1,008,000**	**877,399**	**(130,601)**	**-13%**
Management Fee				
SLA	456,000	414,369	(41,631)	-9%
Supplies and Services	243,000	244,712	1,712	1%
Subtotal	**699,000**	**659,081**	**(39,919)**	**-6%**
Total Costs Excluding Depreciation	**1,707,000**	**1,536,480**	**(170,520)**	**-10%**
Depreciation	571,000	571,000	0	0%
Total Expenses	**2,278,000**	**2,107,480**	**(170,520)**	**-7%**
Profit excluding interest and tax	**1,971,000**	**2,080,511**	**109,511**	**6%**
Interest Charge	1,989,000	1,105,465	883,535	80%
Profit after Interest	**(18,000)**	**975,046**	**993,046**	

5.0. Fire Safety and Stock Condition

5.1. The Council has undertaken a data collection exercise on the external wall systems installed on all high-rise residential buildings of 18m and above in the borough.

5.2. The review identified that external fabric combustibility issues may be a concern on eight of FWH's blocks at Granville, Canterbury and Princess Road.

5.3. FWH is currently carrying out the investigative works to understand what remediation works are needed.

5.4. Following an arranged visit with the London Fire Brigade (LFB), the common escape route ceiling panels were deemed to be not within acceptable limits. The LFB have issued enforcement notice on FWH to remediate the fireproofing in the means of escape areas. This is due to the importance of the common escape routes for fire brigade access and the evacuation of the blocks. The LFB have recommended that there can be no compromise and that the panels should be removed and replaced with a suitable A rated product.

5.5. Until the necessary remedial actions have been implemented, the ceiling panels are being removed and a waking-watch service has been put in place at the blocks. A communal fire alarm system will be installed in early 2021 which will mitigate the need for a waking-watch service.

5.6. In addition to this further testing is required to ascertain if the external wall systems meet the functional requirement of the building regulations.

5.7. London Fire Brigade enforcement notices give FHW 9 months to finalise remediation plans.

5.8. It is not possible to determine the required remediation to the blocks until further intrusive investigations have been undertaken. Work to develop remediation plans will continue into 2021/22.

6.0. 2021/22 Business Plan

6.1. FWH is currently preparing its annual business plan. The Company's Board and the Council as Guarantor will feed into the development of the plan, and a final version will go to Cabinet for Guarantor approval in February 2021.

6.2. The 2021/22 FWH Business Plan focuses on improving FWH's operations efficiency and on improving tenant satisfaction. The strategic objectives, and key priorities for each of these across 2021/22, in the Business Plan are as follows:

- Deliver safe and sustainable homes.

    - Carry out a programme of works to improve the condition and sustainability of blocks in South Kilburn.
    - Establish a suite of compliance policies and standards to ensure legal compliance.
    - Establish a suite of performance monitoring metrics to give the Board assurance on compliance levels.
    - Carry out an audit of the new compliance suite.
- Increase the supply of affordable housing in the borough.
    - Remain available as an RP to support the Council's affordable housing aspirations.
- Run a viable business.
    - Carry out a benchmarking exercise.
    - Reduce void times.
    - Develop an Asset Management Strategy for FWH.
    - Implement an Oracle Cloud finance system for FWH
    - Review utilities charging processes to ensure timeliness and accuracy.
    - Review void and repair costs.
- Provide a consistently good housing service.
    - Review our approach to assessing customer satisfaction.
    - Review the sustainability and affordability of rent levels.

7.0. Risk Update

7.1. The full company risk register is included in Appendix 1. The main risks FWH currently faces are:

- Capital Programme costs undermine the viability of the business plan.
- There is no affordable or technical solution for FWH properties to meet enhanced legal standards.
- Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in FWH being non-complaint with its statutory obligations.

7.2. The Company's risk register is reviewed quarterly. Throughout the risk register business plans assumptions and mitigations are updated.

8.0. Audit Update: Rent Collection Audit

8.1. The aim of this audit was to review FWH's rental charges to ensure that rental charges and rates are reviewed on a regular basis, tenants are charged the correct rates and that the rent collection service that FWH receives from Brent Housing Management (BHM) is robust.

8.2. Good practice was identified in a number of areas. This includes the following:

- A clear and well-defined Rent Strategy in the form of the FWH Business Plan 2019/20. The Business Plan outlines key risks and new opportunities relating to rent collection, which is monitored and analysed on a regular basis through management meetings.

- Clearly articulated roles, responsibilities and accountabilities between FWH and BHM.

8.3. The audit identified one high-risk and three medium-risk issues. These were:

- The Rent Collection KPI (high-risk);
- Lack of guidance around arrears rental agreements (medium-risk);
- Formal evidence of monitoring rental agreements (medium-risk); and
- Non-compliance with the arrears recovery process (medium-risk).

8.4. The recommendations of the audit were presented to the FWH Board in January 2020 and agreed. An update for each recommendation has been provided below:

Risk	Recommendation	Progress update
Rent Collection KPIs	Develop a reporting method that segregates actual rent collections and the collection of historic arrears.	The FWH Board agreed for the rent arrears solutions system (RAMS) to be built for the FWH portfolio. This has now been developed and is live. The developers will be working towards segregating actual rent collection from historic arrears.
Guidance around arrears rental agreements	1. The FWH Board should develop and issue formalised guidance to BHM around maximum and minimum rental agreement thresholds. 2. FWH should request management information on the number, value and adherence to tenant rental agreements on a regular basis to assess the effectiveness of rent recovery procedures.	1. This action is ongoing. Officers will meet to align the development of guidance with the rent setting process. This will then be taken to the FWH Board to be formalised. The deadline for this action is January 2021. 2. RAMS gives the FWH Board a better insight of arrears and staff performance on a daily, weekly and monthly basis.
Formal evidence of monitoring rental agreements	FWH should request management information based on the number, value and adherence of tenant rental agreements on a regular basis to assess the effectiveness of rent recovery procedures.	A breakdown of rental agreements has been integrated as an item in the FWH monthly reports.

Arrears recovery process	FWH should work with BHM to understand the effectiveness of the arrears recovery process and consider whether process timeframes should be revised. FWH should also discuss and consider the manual nature of controls currently implemented by BHM to assess whether risks are being mitigated. FWH should develop and enforce KPIs covering each stage of the arrears recovery process.	RAMS gives the FWH Board a better insight of arrears recovery performance.

8.5. An audit has also taken place into the Management of the i4B/FWH Service Level Agreement. FWH is awaiting the final report on this audit.

Ref	Strategic Risk	Risk	Business Plan Objectives
1	FWH does not meet H&S requirements	Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in FWH being non-compliant with its statutory obligations.	Safe and Sustainable Homes
2	FWH does not meet H&S requirements	Poor contractor performance and information control results in FWH properties being non-compliant with statutory H&S objectives	Safe and Sustainable Homes
3	FWH does not meet H&S requirements	There is no affordable or technical solution for FWH properties to meet enhanced legal standards	Safe and Sustainable Homes
4	FWH does not meet H&S requirements	FWH lacks the policies, knowledge, and governance arrangements to effectively monitor regulatory and legal standards on compliance.	Safe and Sustainable Homes
5	FWH cannot trade as a going concern	Changing Government policy on rents/benefits means FWH cannot increase rents at business plan assumptions.	Running a Viable Business
6	FWH cannot trade as a going concern	Reductions and changes in market demand means FWH cannot increase rents at business plan assumptions.	Running a Viable Business
7	FWH cannot trade as a going concern	Tenant non-payment of rent increases due to unaffordability of rent.	Running a Viable Business
8	FWH cannot trade as a going concern	High void rent loss due to long void turnaround times.	Running a Viable Business
9	FWH cannot trade as a going concern	High Capital Programme Costs undermine the viability of the business plan.	Running a Viable Business
10	FWH cannot trade as a going concern	A lack of transparency around costs means FWH cannot effectively report on its costs.	Running a Viable Business
11	Financial and Reputational damage	Fraud could result in a loss of income and/or reputational damage to the company and the Council	Running a Viable Business
12	Financial and Reputational damage	First Wave is deemed to have failed a statutory requirement in its corporate role	Running a Viable Business
13	Drop in customer satisfaction and damage to reputation	Contractor Performance is not effectively managed and monitored leading to poor customer service	Providing an Excellent Housing Service
14	Drop in customer satisfaction and damage to reputation	Poor service delivery and complaints management procedures give rise to low tenant satisfaction	Providing an Excellent Housing Service

Trigger	Likelihood	Impact	Score	Mitigation	Owner	Due Date
Inadequate controls on record creation	4	5	20	Review asset records and the controls around creation and update. Produce a regular compliance report to Board covering all compliance requirements	Head of Property Services	Mar-21
Lack of KPIs and monitoring processes	3	5	15	Setting up effective monitoring processes on compliance	Head of Property Services	Mar-21
Changing legal obligations	2	5	10	Annual review to monitor changes in regulatory requirements and our compliance with them.	Head of Property Services	Mar-21
Lack of reliable monitoring reports to Board	2	4	8	Annual review of policies and reporting.	Strategic Support Officer	Mar-21
Change of government policy	3	3	9	Regular modelling and business plan reviews.	Senior Financial Analyst	Dec-20
Change in market demand	3	2	6	Regular modelling and business plan reviews.	Senior Financial Analyst	Dec-20
Change in market demand	3	3	9	Regular modelling and business plan reviews and effective recovery processes	Income and Sustainment Manager	Dec-20 Jul-21
Poor void management processes and reporting	4	3	12	Improved void management processes and reporting	Voids Manager	Dec-20
Poor stock condition and high compliance costs	3	5	15	Develop a costed asset management plan with viable options	Head of Property Services	Jan-21
Delay in invoicing transactions to FWH	5	2	10	Improved financial billing processes	Senior Financial Analyst	Dec-21
Poor internal controls or lack of compliance with them	2	3	6	Annual review of internal controls	Strategic Support Officer	Mar-21
Policies and procedures fail to meet regualtory requirements or are not complied with	2	3	6	Annual review of regulatory requirements and compliance with them	Strategic Support Officer	Mar-21
Not effectively managing the supply chain	2	3	6	Clear service standards, regular performance management, and engaging with supply chain	Strategy Delivery Lead	Dec-21
A lack of clear service standards and complaints management procedures means complaints are not effectively delay with.	2	3	6	Putting in place clear service standards and monitoring complaints performance.	Strategic Support Officer	Dec-21

Brent	**Audit and Standards Advisory Committee** **8 December 2020**
	Report from the Director of Legal HR Audit and Investigations

Internal Audit Progress Report for the period May - October 2020

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix A: Completed Audits for the period May to November 2020 Appendix B: Current Audit Statuses Appendix C: Follow Up Reviews
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Michael Bradley, Head of Audit and Investigations, Michael.bradley@brent.gov.uk Tel: 07920 581620

1. Purpose of Report

1.1. This report provides an update on progress against the Internal Audit Plan for the period 1 May 2020 to 31 October 2020.

2. Recommendations

2.1. The Committee note the content of the report.

3. Internal Audit Performance

3.1 During this period, Internal Audit have:
- Completed 17 audit reviews;
- Conducted advisory work on the Oracle Cloud Project;

- Issued a further two draft reports which are awaiting management responses;
- Completed 10 follow up reviews;
- Completed grant claim certifications for the Troubled Families Programme.

The team has also been able to react to urgent management requests when required. Further details are set out below.

3.2 The team appointed a new Principal Auditor who joined in July 2020. In September, the Auditor Apprentice was promoted to Internal Auditor. The team continues to be supplemented by a (reduced) contracted resource from PWC.

Audit Work Undertaken

3.3 The Internal Audit Plan for 2020/21 initially comprised 55 audits excluding school reviews, follow-ups and advisory work. During the period, following consultation with management:

- Seven new audits have been added to the plan;
- Nine audits have been cancelled or deferred to 2021/22.

3.4 17 audits have been completed during this period (this included nine audits that had been carried over from 2019/20). A further two draft reports have been issued awaiting a response from management. At the time of writing, a further 11 audits are nearing completion or are in progress and a further three have had terms of reference agreed prior to beginning fieldwork.

3.5 Details of the audits and the key findings are set out in Appendix A. Details of the audits currently in progress are set out in Appendix B.

3.6 The Council has a programme to migrate from the existing finance, procurement and HR/Payroll system to a single Oracle Cloud solution. Audit are carrying out a real time review to provide assurance on the controls and governance of the programme. In a separate audit work stream auditors provided ongoing advice and guidance in respect of risk and controls to each of the HR, Procurement and Finance work streams.

Coronavirus Response

3.7 Internal Audit were requested to carry out a number of additional pieces of audit work to support staff dealing with grant payments in relation to the Coronavirus pandemic. This work focused on ensuring that new processes for payments were properly risk assessed and controlled in order to protect public funds and to minimise the occurrence of fraud. Currently five different payment areas have been or are in the process of being reviewed.

3.8 In addition to specific recommendations, a list of key controls and processes were identified and reported for any future grants.

3.9 For part of April and May two members of the Audit team volunteered (with other Council staff) to contact Brent Residents who were shielding, offering advice and guidance from the NHS, making referrals where necessary for specific assistance to be provided.

Follow up Reviews

3.10 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented.

3.11 During the period, 10 follow up reviews have been completed. A further eight are currently in progress. Details of the completed follow up reviews are set out in Appendix C.

3.12 Of the 10 completed, two had high-risk actions that had been only partially implemented. These will be further followed up to ensure they have been satisfactorily implemented and details are included in Appendix C.

86 management actions have been reviewed:

Implemented	Partially Implemented	Not Implemented	No Longer Relevant
62	20	1	3

3.13 Revised completion dates have been agreed with management where actions remain partially or not implemented. Audit will revisit to confirm implementation where appropriate.

Schools

3.14 The program of school audits focuses on governance, financial processes and accompanying back office resources. 11 school audits were originally scheduled to be carried out. This included one carried over from 2019/20.

3.15 Due to the ongoing Coronavirus situation, no school audits were possible during the Summer term or during the first half of the Autumn term. During the second half of the Autumn term, we plan to carry out a revised approach; reviewing documentation remotely and carrying out virtual meetings with the school to discuss any issues arising. Four school audits are planned for this period.

3.16 Internal Audit continue to attend the Teachers' Panel and School Information Exchange meetings to discuss the audit process, key risk areas and any other concerns raised by schools.

Customer Satisfaction

3.17 Management are asked to provide feedback on individual audits completed and the feedback is incorporated into the continuous improvement of the service. Questionnaires issued at the end of each audit ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made.

3.18 Four questionnaires have been returned during this period. All responses were very positive with 100% of scores either very satisfied or satisfied.

4. Financial Implications

The report is for noting and so there are no direct financial implications

5. Legal Implications

The report is for noting and so there are no direct legal implications

6. Equality Implications

None

7. Consultation with Ward Members and Stakeholders

None

Report sign off:
Debra Norman, Director of Legal HR Audit and Investigations

Appendix A

Completed Audits for the period May to November 2020

Audit Title	Key Findings
Registrars	Two medium risk issues and two low risk issues: Medium ▪ Marketing projects not summarised into an action plan making reviewing and monitoring difficult ▪ Cash and cheque income receipts recording; Low ▪ Understanding of HMRC VAT regulations, and ▪ The accuracy of income reporting.
Voluntary Sector Funding	Eight medium risk issues: • Management and progression of VSIF funding applications. • Inconsistencies in the management of LWYL grant; approvals for extra funding and outdated guidance document. • Management of Edward Harvist Fund, including centralised document retention. • Evidence of visits/telephone calls for the monitoring of organisations that received BAF funding. • Project trackers. • Documentation checklists. • Guidance for processing of grant applications. • Panel minutes - declaration of interests or names of attending panel members.
IT Sourcing & Procurement	Four medium risk findings are: • Management of client and personal information. • Evidence of contract monitoring. • BCM and DR plans for third parties and vendors. • No specific requirements to ensure correct teams involved in process.
Highways	One medium and one low risk finding: • Medium risk issue was in relation to KPI monitoring. • Low risk issue was in relation to the application of the verification of performance standards for planned and reactive projects.
Schools Capital Programme	One high-risk issue related to contractor performance management. Three medium risk issues: • Quality and accuracy of the updates made to the risk logs • documentation for governance and control • Planning and forecasting processes

IT Governance	Three medium and one low risk issue identified: Medium risk: • Shared Service SLA with the Councils and the Inter-Agreement Authority document - penalties and rewards defined for achievement or non-performance of the SLA. • Risk register for Shared Service. • Roadmap listing IT Infrastructure and Architecture and current support dates. Low risk: • Current IT Organisational Chart.
Robotic Process Automation	Four medium risk findings: • RPA methodology and development lifecycle • RPA Business Continuity and Disaster Recovery strategy to ensure that bots are included in the periodic BC and DR testing. • Standard access provisioning mechanism for UiPath to ensure all access is appropriately authorised prior to provisioning. • Formal and documented training and awareness plan to ensure that employees are kept updated.
Parking Enforcement	Three low risk issues: • risk register • High level process documentation outlining key controls with regards to contract. • Formal assurance given by Serco to confirm CEO qualifications are sufficient and up to date.
Platform Review	High risk: • Monitoring to ensure that no unauthorised changes are made to configuration settings. • Monitoring of audit logs by management. Medium risk: • User access reviews. • Policies or standard operating procedures for key support and maintenance processes. Low risk: • Out of support operating system - long-term migration plans.
Business Support Grants	The review made the following recommendations: • A checklist should to facilitate the documentation of eligibility checks and any conflicts of interests, for each grant application. • Where discrepancies are identified with the bank records within grant applications, these should be investigated and clarified prior to payment of grant. • Sufficient approval is sought from Management prior to the payment of funds to business accounts with disputes of liability and/or arrears, for the remaining applications.
Veolia Open Book Review	Audit provided verification on the accuracy of additional expense claims that Veolia incurred over and above the normal contract costs due to the additional difficulties encountered due to the Covid-19 pandemic.

Complaints Handling	Four low risk issues: • The public available policies and procedures are not up to date; • The public are not being made aware of how complaint analysis is used to improve services; • Regular refresher training is not being provided for service complaints officers and; • A “read only” access user profile is not available in the current version of CRM.
Barham Park Accounts	Internal Audit acted as an independent examiner and reviewed the draft Barham Park Trust 2019-20 accounts which will be submitted to the Charities Commission.
Neighbourhood CIL	Four medium risk issues identified: • Timing signing of funding agreements,. • No funding agreements or service level agreements for projects that are internally delivered by the Council. • Payment tracker for NCIL was incorrectly updated to indicate that a payment was made to an external organisation in June 2020. • Actions arising as a result of project monitoring are not assigned an owner or timescale for completion.
GDPR	Three medium risk issues identified: • Clarity of the timescales for completion of Record of Processing Activities on OneTrust system. • A comprehensive record of all signed Information Sharing Agreements. • Control ensure that retention schedules are being adhered to by Services across the Council.
PCI DSS	One high and one low risk issue: • Chargeback letters held on the shared drive. • OneTrust should be regularly updated with supplier and vendor information in relation to PCI.
Discretionary Grant Payments	In order to ensure that grants are administered appropriately, we recommended that: • Staff are provided with adequate training and up-to-date guidance. • Checklist to be completed for all applications to document eligibility checks and conflicts of interests. • Evidence of all verification and eligibility checks should be documented and retained as supporting documentation for each application. • All applications that are approved should be reviewed by a Senior Officer to ensure that all checks are completed and that there is evidence of the decision making process.

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Appendix B

Audit	Current Status
Children Disability Payments	Draft Report issued to Management
Residential and Nursing Care	Draft Report issued to Management
Fleet Management	Fieldwork completed
Health and Safety - Legionella	Fieldwork completed
Capital Letters	Fieldwork in progress
Oracle Cloud Programme Management	Fieldwork in progress
Health and Safety - Lone Workers	Fieldwork in progress
I4B/FWH - Service Level Agreements	Fieldwork in progress
GLA Affordable Housing Programme	Fieldwork in progress
Support Fund Grant Payments	Fieldwork in progress
Temporary Workers	Fieldwork in progress
Council Tax	Fieldwork in progress
IT Disaster Recovery	Fieldwork in progress
Contract Management	Terms of Reference agreed with Management
IT Asset Management in the shared service	Terms of Reference agreed with Management
Housing Benefits Verification and Appeals	Terms of Reference agreed with Management

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Appendix C

Follow Up Reviews

Audit Title	Management Actions			
	Implemented	Partially Implemented	Not implemented	No Longer relevant
Income Management	6	9 (4)	0	0
Cemeteries	2	0	1	1
Recruitment and Retention	3	0	0	0
Payroll	8	4 (4)	0	2
Prevent	4	2	0	0
General Ledger	3	0	0	0
Apprenticeships	4	0	0	0
IT Access & Identity Management	15	1	0	0
Case Risk Management	9	0	0	0
Schools Capital Programme	8	4	0	0

The numbers in brackets are high risk actions partially implemented and detailed below:

Income Management:
Council Income
Allocation of responsibility for monitoring Council income and ensuring that this list is accurate and up to date.
Grant Income
A process of raising invoices for grant income in order for the new AIM system to allocate the income and allow visibility over all grant income received by the Council.
Refund received
A consistent approach for receiving refunds into the Council, document this process and communicate it to all teams. The procedures should include the individual / team designated to communicate with the supplier and conduct monitoring to ensure payment is received. In addition, the root cause analysis of refunds should be completed.

Management information
Request and review periodic reporting on Council income to increase their understanding of how the process is performing at a Council level.

Payroll:
Over-Payments
A coordinated process to recover payments from ex-employees to be agreed with the debt recovery team. Action should be taken urgently to recover the outstanding balances – (*The plan now is to include this in the Leavers process within the Oracle cloud design in 2021).*

Historic reconciliations (prior to April, 2018) should be performed to identify potential over-payments made through off-cycle payments. Any necessary adjustment or recovery action should be taken immediately to recover all over-payments.

Payroll Reconciliation
The process for payments bank account and payroll GL reconciliation needs to be reviewed to ensure it is fit for purpose. This should include investigating and resolving large discrepancies.

The payroll creditors reconciliation should be performed on a monthly basis and the existing process should be reviewed. A new format can be adopted to simplify the reconciliation process and capture all the information under one reconciliation.

Brent	**Audit and Standards Advisory Committee** **8 December 2020**
	Report from the Director of Legal, HR and Audit & Investigations

Counter Fraud - 2020/21 Progress Report Q2

Wards Affected:	N/A
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	None
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Michael Bradley, Head of Audit and Investigations Service Michael.Bradley@brent.gov.uk 07920 581620

1.0 Purpose of the Report

1.1 The report sets out a summary of the counter fraud activity for 2020/21 up to Q2, and the impact that Covid-19 arrangements have had on the service.

2.0 Recommendation

2.1 To note the report content prior to circulation at the Audit and Standards Advisory Committee on 8 December 2020.

3.0 Detail

Internal Fraud

3.1 Internal referrals include whistleblowing referrals and a range of case types such as staff conduct, financial and procedural irregularities. Proactive work and our review of the National Fraud Initiative (NFI) data-matched reports are covered in the 'Proactive' section of this report. Internal fraud typically has the fewest referrals in any period but is generally more complex in nature. The table below sets out key figures in this area for 2020/21.

Table A – Internal Fraud

Internal Fraud	2020/21 (full year)	2020/21 Q4	2020/21 Q3	2020/21 Q2	2020/21 Q1	2019/20 (full year)	2018/19 (full year)
Open Cases b/f	12			17	12	5	11
New Referrals	20			7	13	35	28
Closed Cases	19			11	8	28	34
Open Cases c/f	13			13	17	12	5
Fraud / Irregularity Identified*	4			3	1	12	11

* Where closed cases do not identify fraud / irregularity, these are generally recorded as NFA (No Further Action)

3.2 There were 20 new referrals opened during the first six months from a variety of sources that also related to whistleblowing. The volume of referrals is consistent with recent years, and the trend suggests the service profile and engagement across the council remains effective. Due to the confidential nature of the type of referrals, it is not appropriate to provide details in this report. A summary of the main case types received is as follows:

- Advice or guidance;
- Breach of financial / other regulations;
- Bribery and Corruption;
- Conflict of Interest;
- External offences/conduct by staff;
- Misuse of IT;
- Recruitment irregularities, and
- Theft of cash / assets.

3.3 Two concluded cases involved misuse of IT systems by new members of staff whilst on probation. Both officers resigned during a disciplinary investigation.

3.4 Another case involved a conflict of interest relating to the procurement of temporary accommodation. Management agreed to implement recommendations to improve their verification process, and improve procedures for staff involved with procuring properties for temporary accommodation.

3.5 With most cases under this category, the Counter Fraud team will report to management with any recommendations to improve control and to mitigate future occurrences. It will also liaise with the Internal Audit team for wider consideration in the Audit Plan. Recommendations arising from fraud investigations are followed up with the same rigour as those from Internal Audit work.

3.6 The team arrange regular fraud awareness workshops across all council services. This is an on-going commitment and coverage includes services where fraud has occurred or where the team's own fraud risk assessment of a service suggests there is a higher fraud risk.

Tenancy and Social Housing Fraud

3.7 The recovery of social housing properties by the Counter Fraud team has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk for the Council. The average value of each recovered tenancy is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). The counter-fraud activity for 2020/21 is summarised in the table below.

Table B – Tenancy and Social Housing Fraud

Housing Fraud	2019/20 (full year)	2019/20 Q4	2019/20 Q3	2019/20 Q2	2019/20 Q1	2019/20 (full year)	2018/19 (full year)
Open cases b/f	66			82	66	23	28
New cases	114			42	72	176	151
Closed cases	109			53	56	133	156
Open cases c/f	71			71	82	66	23
Fraud Identified	4			2	2	19	27

* Notional value of recovered properties (including housing and Right to Buy applications stopped, property size reduction and prevention of split tenancy) used for reporting purposes is £93,000. (£18,000 used previously)

3.8 The total number of fraudulent housing cases concluded up to Q2 was four, which is lower than recorded for the same period in the previous year of seven. The total notional and actual value of these cases is £372,000. In addition, the team has completed five tenancy verifications where fraud was not identified.

3.9 The number of housing frauds detected during the first six months has reduced when compared to an average of 29 total recoveries over the previous three years (19, 27, and 42). Referrals from Brent Housing Management's Home and Communities team have declined over the last two years, though both teams are working to address this and help improve the quality and quantity of referrals. Of the 114 referrals logged in Q1 and Q2, 19 were from BHM teams. In comparison, of the four successful fraudulent cases concluded in the same period, two were from direct engagement with BHM and the remaining two from internal proactive work. This emphasises the importance of receiving good quality referrals from housing staff through their normal engagement with council tenants.

3.10 There are currently 100 live housing investigations – of these, 13 cases are involved with legal proceedings to recover the property, and a further 19 cases have been concluded by the team with a report issued to Housing Management and other RSLs to instigate recovery action. The team is working closely with the relevant teams to progress these cases.

3.11 The team is currently working with Housing Management to provide appropriate access to anti-fraud and tracing systems for their staff to aid verification, particularly with Succession and Right to Buy applications. It is also assisting management to formulate a tenancy audit and anti-fraud strategy by the end of this Q4.

External Fraud

3.12 'External fraud' includes all external fraud / irregularity that affects the council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications. The counter fraud activity for 2020/21 is summarised in the table below:

Table C – External Fraud

External Fraud	2020/21 (full year)	2020/21 Q4	2020/21 Q3	2020/21 Q2	2020/21 Q1	2019/20 (full year)	2018/19 (full year)
Open cases b/f	37			94	37	20	13
New Referrals	207			63	144	193	142
Closed Cases	145			58	87	176	135
Open cases c/f	99			99	94	37	20
Fraud / Irregularity identified*	10			4	6	49	23

* Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).

3.13 There has been a significant increase in referrals of this type throughout this year. This is mainly due to a new referral process developed last year with the Parking Service and its contractor Serco to tackle Blue Badge fraud and misuse. Another reason is an increase in referrals relating to Business Rates, particularly business support grants, which is in addition to various proactive work undertaken by the team in this area. The team has processed 207 referrals so far this year, compared with 193 in the previous year.

3.14 Successful outcomes decreased compared to the previous year, which includes five cautions/warnings issued for Blue Badge fraud or persistent misuse. A further three Blue Badge cases have been approved for further sanction or legal proceedings.

3.15 There are currently 84 live cases, which includes 22 Blue Badge, 13 Council Tax and four Business Rates related cases. Other case types include; insurance claims, payments from Adults and Children services, theft of client funds, grants, benefits and other alleged offences affecting the council.

3.16 A notable case was a long-standing insurance claim for a personal injury where the council had admitted liability. The original claim, which included loss of earnings, was suspected to be fraudulent with a worst-case scenario value of £1.13M. The claimant withdrew their case as evidence provided by the Investigations team enabled solicitors to move to plead Fundamental Dishonesty in an amended defence. The claimant's solicitors accepted a drop hands offer, which resulted in a net saving for the council of £350,000. A Freedom Pass that the claimant had obtained fraudulently was identified during the investigation and cancelled, producing a further saving of £6,000.

Proactive activity

3.17 There were no Blue Badge operations undertaken during Q1 due to Covid-19 restrictions. Two smaller targeted operations were undertaken during Q2 covering the Neasden and Willesden areas. This was part of a visible presence with other enforcement teams. It resulted in 32 badges inspected and one seized for misuse. A further case where a stolen badge was identified is under investigation. The team will continue to review the Covid-19 risks during Q3 and Q4 before conducting larger operations though will continue to support other enforcement teams in smaller targeted operations.

3.18 The mandatory data submissions for the National Fraud Initiative (NFI) 2020 exercise has was recently uploaded. The results should be available during 2020/21 Q4. The previous exercise generated 19,296 data matches covering multiple data reports across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Parking Permits and concessionary travel. In addition, there is an annual data match between Electoral Roll and Council Tax Single Persons Discount records, which produced over 6,500 matches this year, and resulted in £251,765 actual savings. To date, the review of NFI reports has identified over £570,000 savings from fraud and error covering a range of service areas. It contributes to the national savings figure of £215M as reported in the NFI July Report. This is in addition to the notional and actual savings identified from other team investigations during Q1 and Q2 that totals £749,996.

3.19 The team did not commence any new proactive work during Q1 due to an increase in referrals and the provision of additional counter fraud advice and support to services impacted by Covid-19.

3.20 In Q2, a post assurance proactive exercise commenced on the business support grants processed by Capita and paid by the council in Q1. This involved data matching approximately 3,600 payment records against anti-fraud systems to identify fraudulent applications. The exercise found 91 matched cases and of these, only 15 were identified for further investigation, which are ongoing. The team had also shared ongoing intelligence of known UK-wide grant fraud cases with Capita. This enabled them to identify several fraudulent applications prior to payment, some of these were referred to the team for further investigation with an estimated saving in excess of £100k. This exercise did not include the discretionary grant payments paid to local businesses during Q2, as the fraud risk was less due to additional verification and controls, including business and bank account verification checks. These additional checks helped to identify £30k savings prior to payment.

3.21 The service is proposing that the Council obtain full membership access to an Internal Fraud Database (IFD) that has been developed and maintained by CIFAS (a not-for-profit UK fraud prevention service). An update was sent to CMT earlier this year and the membership agreement is currently awaiting approval from the Director of Legal, HR and Audit & Investigations.

- The IFD is a repository of fraud risk information that can be used to reduce exposure to fraud and other irregular conduct and inform decisions according to risk appetite. This system is focussed on employee fraud and recruitment controls.
- The system will enable the Council to have additional assurance around recruitment and provide the Investigations team with additional resource when conducting internal investigations.

Impact of Covid-19 on service

3.22 There were 341 referrals across all case types logged during Q1 and Q2, compared with 207 in the same period last year (and 150 the year before). This included 20 Internal, 114 Housing and 197 External referrals. The approximate 60% increase in referrals has coincided with the government's lockdown arrangements.

- Alleged unlawful subletting makes up the majority of Housing referrals at 72, with 64 coming from the public and four received from internal teams. In addition, a fifth of the total received have come from Housing Management, and the majority of these relate to non-residence and false tenancy succession applications.
- Approximately 80% of all external referrals received were from the public with the majority related to household occupancy, business grant schemes, parking and other breaches related to lockdown arrangements.

3.23 The team has provided volunteers to support Adult Social Care with contacting vulnerable and high-risk residents at the start of Q1.

3.24 Plans to install four new ID scanners at the Civic Centre in April had to be postponed, and will be rearranged once it is safe and feasible to do so.

3.25 The arrangements during Q1 had prevented the team from undertaking visits and interviews, which meant some cases did not initially progress as normal. The team introduced temporary arrangements at an early stage to manage formal cautions and referrals for legal proceedings. Risk assessments and workable solutions for interviewing and visiting duties were implemented by the start of Q2, which was shared with other services similarly affected. In addition, restrictions with court and other legal proceedings affected the progression of a number of cases throughout Q1 and Q2.

3.26 Plans to recruit three new staff in Q1 using a Government anti-housing fraud grant were suspended and will be reviewed in Q3. This also affected planned training for staff to undertake the Counter Fraud Apprenticeship, which has just recently commenced.

3.27 The team have coped and adapted well with the ongoing workload, which has enabled it to assist the council with contacting vulnerable residents, and taking a more advisory approach to help other services cope with increased fraud risks. This has included significant involvement with the both the Business Grant and Business Discretionary Grant schemes to mitigate fraud.

3.28 Advice was provided to all managers at the beginning of the pandemic period on fraud awareness when making interim changes to processes and controls in order to deal with the crisis. Additionally specific advice was provided on certain high-risk initiatives such as payment of small business grants.

4.0 Alternative Options Considered

4.1 N/A

5.0 Financial Implications

5.1 There are no specific financial implications associated with noting this report.

6.0 Legal Implications

6.1 There are no specific legal implications associated with noting this report.

7.0 Equality Implications

7.1 None.

8.0 Any Other Implications (HR, Property, Environmental Sustainability - where necessary)

8.1 None

9.0 Proposed Consultation with Ward Members and Stakeholders

9.1 None.

<u>Report sign off:</u>

Debra Norman

Director of Legal, HR, Audit and Investigations

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Brent	**Audit and Standards Advisory Committee** 8 December 2020
	Report from the Director of Legal, HR, Audit and Investigations

Corporate Risk Register

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Appendix A: Corporate Risk Register
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Michael Bradley, Head of Audit and Investigations, Michael.bradley@brent.gov.uk Tel: 07920 581620

1.0 Purpose of the Report

1.1 This report provides an update on the Council's Risk Management position and includes an updated Corporate Risk Register. Each of the departmental management teams has carried out a review and re-assessment of their risk registers.

2.0 Recommendations for Committee

2.1 Committee to note the current Corporate Risk Register and heat map included at Appendix A to this report.

3.0 Detail

3.1 **Risk Management Strategy**

3.2 A review of arrangements undertaken as part of the 2019 refresh exercise established that risk is well understood across all levels of management.

3.3 The Corporate Risk Register was initially developed following a series of workshops with departmental management teams. Based on recently revised departmental risk registers, the Corporate Risk Register has been updated and is presented at Appendix A.

3.4 There are inherent risks which the Council faces which are owned and monitored at Departmental level. These have previously been identified as:

- Safeguarding (Children and Adults);
- Business Continuity;
- Information Governance;
- Legislative Compliance;
- Fraud and Corruption;
- Financial Stability, and
- Health and Safety.

These risks will be incorporated into the Corporate Risk Register when net or mitigated risk ratings are deemed to be of a level that exceed the appropriate tolerance. During the course of the workshops in 2018/19 and in subsequent iterations of departmental risk assessments, none of these inherent high risks were rated as high risk.

3.5 The main changes to the risk register following this review are:

- Removal of the risks London Borough of Culture, Universal Credit and Recruitment, Retention and Training*;*

- Addition of Financial pressures arising from the COVID-19 pandemic. Pressures have been identified for 2020/21 with a possible funding gap of £12.3m;

- Addition of Workforce Resilience risk. Due to the pressures of the Covid pandemic, staff welfare and ability to continue to deliver at the highest levels may be adversely effected;

- Addition of shortfall in the Housing Revenue Account risk. The increase in financial hardship from Covid-19, combined with changes to welfare and benefits provision may result in non-payment;

- Addition of a ‘Demand for Services’ risk. The level of demand for services grows beyond services’ ability to manage effectively growth in areas such as LAC, Care Leavers and SEND, and

- Addition of Cyber Attacks risk. If successful this would potentially impact all services, to the extent that they would be unable to provide a service in the first instance.

3.6 Although there is no new risk identified specifically for the Covid-19 pandemic, this event has created financial and other risks which are reflected in a number of the risks represented.

4.0 Financial Implications

4.1 **There are no specific financial implications arising from this report. Departments assess and manage risks within existing budgets.**

5.0 Legal Implications

5.1 All Local Authorities are required to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 20015:

"A relevant authority must ensure that it has a sound system of internal control which:

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective, and

(c) includes effective arrangements for the management of risk."

6.0 Equality Implications

6.1 None

7.0 Proposed Consultation with Ward Members and Stakeholders

7.1 This report and the corporate register will be discussed at the Audit and Standards Advisory Committee.

<u>Report sign off:</u>

Debra Norman
Director of Legal, HR, Audit and Investigations

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Corporate Risk Register

November 2020

Corporate Risk Register Heat Map November 2020-2021

Financial

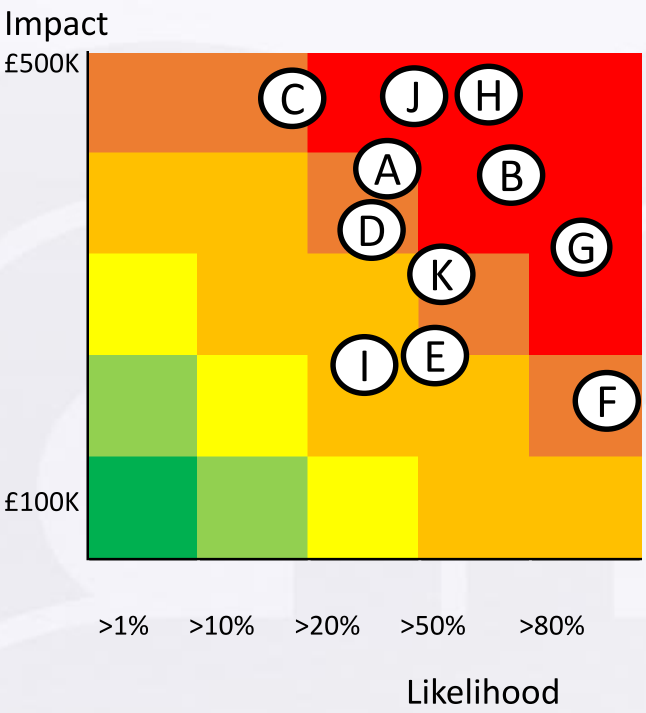
A. Budget Overspend
B. Failure to Deliver Planned Savings
C. Financial pressures arising from the COVID-19 pandemic

Service Delivery/ Operational

D. Workforce Resilience
E. Digital Strategy
F. Brexit
G. Shortfall in the Housing Revenue Account
H. Lack of supply of affordable accommodation
I. Demand for Services
J. Cyber Attacks

Stakeholder

K. Contract Management



Risk Register(1/6)

Cause, event, consequence

Risk and Trend *(cause, event, consequence)*	Recent developments, progress and concerns	Actions *(names and dates)*
A. Budget Overspend Demand for services could increase to levels higher than expected without warning, this would mean that services would be overspent resulting in other efficiencies having to be made or funding be found form elsewhere in the council.	There is a strong culture of budget management and the council as a whole has not overspent for five years. There is a structure and system in place to ensure that individual budget managers review their financial position, with results aggregated up to departmental and corporate level and reported quarterly to CMT and Cabinet. A fundamental review of the Medium Term Financial Strategy (MTFS) was agreed by Council in February 2020 for the period 2020/21 to 2022/23. As part of this review, sensitivity analysis and scenario modelling was undertaken on all aspects of the MTFS, including income assumptions, expenditure assumptions and savings assumptions. However, following the outbreak of COVID-19, a further review of the MTFS has been undertaken to identify the future impact of COVID-19 on income assumptions (primarily income from businesses rates and council tax income and sales, fees and other charges) and expenditure assumptions (primarily recurring pressures on new and existing council services). This review was presented to Cabinet in July 2020 and will be incorporated into the budget setting process for 2021/22.	To be addressed through the budget setting process for 2021/22.
B. Failure to Deliver Planned Savings Savings proposals could be subject to delays and unforeseen issues, this would mean that services would be overspent and that we would be unable to manage demand, resulting in other efficiencies having to be made or funding be found from elsewhere in the council.	Brent has a good record of strong financial and budget management, with the majority of savings being delivered on time and implementing mitigating actions if there is slippage in delivery. The council monitors the delivery of planned savings, and mitigating actions where relevant, on monthly basis and reported quarterly to CMT and Cabinet. Following the outbreak of COVID-19, a review of 2020/21 savings is being undertaken on a monthly basis. The most recent update suggests most of the savings can still be delivered, albeit not this financial year, and that for other savings, mitigating actions can be implemented. In addition, the Council has implemented an efficiency drive to generate £5m of one off in year savings/underspends to mitigate the impact of the non delivery of savings.	Ongoing budget monitoring regime. Incorporate in the budget setting process and include in CMT/PCG discussions. Identify an action plan

Risk register (2/6)

Cause, event, consequence

Risk and Trend *(cause, event, consequence)*	Recent developments, progress and concerns	Actions *(names and dates)*
C. Financial pressures arising from the COVID-19 pandemic Obtaining additional resources could be limited or subject to delays, this could mean that services would be overspent and that we may be unable to manage demand, resulting in other efficiencies having to be made or funding be found from elsewhere in the council.	Estimated pressures of £37.4m identified for 20/21 with net government funding covering £25.1m, leaving a gap of £12.3m. Gap to be further reduced by: 1. Estimation of Sales/Fees/Charges Income Loss support claimed from government. 2. In year departmental underspend target of £5m. Focus is now on implications on the 21/22 budget and MTFS.	Lobbying to Government for additional resources will continue at the political level. Reallocation of earmarked reserves to be considered if gap is not closed in 20/21. The 21/22 Budget setting process has started and will continue through the autumn with departments considering proposals to meet the estimated gap.
D. Workforce Resilience Due to the circumstances and pressures of the Covid pandemic staff welfare and ability to continue to deliver at the highest levels may be adversely effected leading to impaired performance.	The prolonged crisis, including the second wave, has placed significant pressure on staff, including senior staff leading on the response to the pandemic locally. The pandemic seems unlikely to be brought under control until at least the next financial year, even with the recent good news about vaccines. Action has been taken to understand the impact on staff and to provide support: • Wellbeing surveys have been undertaken. • All staff have been provided with access to equipment for home working and a Covid risk assessment and other support through the Occupation Health Service and Health and Safety. • All staff have access to the council's employee assistance programme and additional specialist counselling support has been put in place for some categories of staff • We have promoted online resources to support staff with	Senior Management vigilance and regular communications to update staff (on-going). Act on the outcomes of the most recent wellbeing survey (Head of Transformation/Head of HR – November/December 2020) Further wellbeing surveys (Head of Transformation – periodic)

Risk register (3/6)

Cause, event, consequence

Risk and Trend *(cause, event, consequence)*	Recent developments, progress and concerns	Actions *(names and dates)*
E. Digital strategy There is a risk that due to poor planning and resource the Digital Strategy and Programme is not delivered to budget, and as a result does not meet business requirements and benefits are not realised.	• The programme has a clear strategy and roadmap and a programme management team is in place with work overseen by the Customer and Digital Board which meets bi-monthly. Governance arrangements have also been strengthened at the programme delivery and project level to reflect the scaling up of the programme following agreement of the second business case for investment • Programme spend is also overseen by the Corporate Landlord Board which reports to the Capital Programme Board. An audit of the Digital Programme returned a 'reasonable' rating and a review has confirmed that all recommendations have been implemented. A range of work has taken place to strengthen the approach to benefits management and realisation.	Continue to embed approach to benefits management Continue to review and adapt governance arrangements to support the programme as it evolves Sadie East Head of Transformation March 2021
F. Brexit - Economic uncertainty/loss of workforce There is a risk that Brexit causes economic uncertainty and impacts on skills and workforce, reducing the Council's ability to develop the local economy and facilitate regeneration, resulting in lower income for the department and stalling regeneration.	Potential impact on EU workforce, slowdown in housing market and economy. Loss of business base and income to council including planning and BC fees. Local businesses impacted by import and export issues. Opportunity for the Council to become more active in property and development, buying up buildings and sites from private sector. The risks pertaining to a 'no-deal' Brexit are being considered and assessed as negotiations are ongoing.	Continue to support local businesses with information to ensure they are aware of the changes required for the end of the transition period. Head of Employment and Skills - ongoing Continue to raise awareness of the EU Settlement Scheme Anne Kittappa Senior Policy Officer 30 June 2021

Risk register (4/6)

Cause, event, consequence

Risk and Trend *(cause, event, consequence)*	Recent developments, progress and concerns	Actions *(names and dates)*
G. Shortfall in the Housing Revenue Account There is a risk that the increase in financial hardship from Covid-19, Government restrictions in enforcement against residents with longstanding debt, combined with changes to welfare and benefits provision may result in non-payment which will lead to a shortfall in the Housing Revenue Account.	There is a current estimated impact of £2 million in rent loss for the HRA due to Covid-19 which has significantly affected rent collection rates. Additionally, Brent is recorded to have one of the highest increase in people now claiming universal credit following significant changes in circumstances and employment following Covid-19. Whilst restrictions remain in place enforcement action cannot be taken against those who choose not to pay or have a long history of not-paying.	Continue working with individuals who have been genuinely impacted by covid-19 to minimise debts e.g. resident support fund, benefit advice and eligibility, affordable repayment plans. Emily-Rae Maxwell
H. Lack of supply of affordable accommodation to meet demand There is a risk that as a result of the limited supply of affordable accommodation and property market slow down, there will not be a sufficient supply to meet the demand from homeless households which would lead to greater reliance on temporary accommodation, which would be an additional burden on the general fund.	The Housing Needs Team is working with i4B and the Housing Partnerships Team to increase the supply of affordable accommodation for households on low income or dependent on benefit. The Council has also joined the pan London housing initiative – Capital Letters, to increase the supply of PRS accommodation that is made available for homeless households in Brent, as well as amending the Allocation Scheme to enable referrals to be made to private accommodation leased by a social landlord to end the main homelessness duty. Update Oct 2020 - The recent economic downturn, related to the Covid pandemic, has resulted in a significant increase in unemployment. This in turn will lead to households accruing rent arrears and facing homelessness, resulting in an increase in demand. The Housing Needs Service are working with colleagues across the council to identify households who are accruing debt, in order to proactively make contact and offer assistance at an earlier stage, to mitigate the impact.	No additional actions identified at this time Laurence Coaker

Risk register (5/6)

Cause, event, consequence

Risk and Trend (cause, event, consequence)	Recent developments, progress and concerns	Actions (names and dates)
I. Demand for Services The level of demand for services grows beyond services' ability to manage effectively – growth in LAC, Care Leavers, SEND demand and complexity of presenting issues children and young people's mental health and wellbeing and as a result service quality deteriorates, budgets overspent, safeguarding issues emerge; staff retention problems.	Review of activities to focus on core service delivery/retaining operational changes implemented during Spring/Summer 2020 COVID-19 pandemic; Service redesign eg establishment of Family Wellbeing Centres; review of high cost placement commissioning arrangements.	Head of Forward Planning, Performance and Partnerships; Head of Inclusion; Head of Early Help; Head of Localities Ongoing
J. Cyber Attack There is a heightened threat of Cyber attack, if they were successful this would potentially impact all services, to the extent that they would be unable to provide a service in the first instance, data may be published online and ICO significant fines result, this would have significant reputational damage to the Council	A number of Councils have been subject to Cyber attacks, the Cabinet Office are advising that there is a heightened security risk level at the current time. The protections in place for the Council, to prevent an intrusion are considered high however, recent experience has been attacks on backups. Brent have implemented additional controls around the backup process, including taking and storing of off line backups for added security. If the Council were subject to an attack restoring from the backups would take a considerable amount of time and there is a risk to some applications, which may not be recoverable.	An investment case is being submitted to CMT to implement a state of the art back up secure solution. Managing Director of the Shared Technology Services. 31 December 2020

Risk register (6/6)

Cause, event, consequence

Risk and Trend *(cause, event, consequence)*	Recent developments, progress and concerns	Actions *(names and dates)*
K. Contract management There is a risk that due to operational, commercial, environmental or relationship issues, an important, high profile front line service may start to fail causing reputational problems for the council.	Contract management framework/ pack reviewed revamped and updated. New Contract training module created and sessions undertaken with Children's and Young People commissioners and more recently at the Commissioning Network in November 20. New Risk Assessment Tool developed. Gateway 3 – Contract review template created and signed off. This is conducted at the mid-term period of a contract valued above £2m and assesses if suppliers are adhering to the performance KPIs / outcomes set out in the contract and if we should be looking to invoke the extension clauses when they come up.	Contracts register to be finalised in December. This will be used to inform future commissioning intentions and review contractual performance midway through key contracts. Procurement will work with Directorates to conduct a segmentation exercise prior to any new procurements and undertake retrospective segmentation for existing high spend contracts, with the latter to be completed by April 21. Internal Audit are currently conducting a review of contract management processes. Rajesh Shori Head of Procurement April 2021

Grant Thornton

The Annual Audit Letter for the London Borough of Brent and Pension Fund

Year ended 31 March 2020

November 2020

Contents

Your key Grant Thornton team members are:

Paul Dossett
Partner
T: 020 7728 3180
E: paul.dossett@uk.gt.com

Sophia Brown
Senior Engagement Manager
T: 020 7728 3179
E: sophia.y.brown@uk.gt.com

Reshma Ravikumar
Audit In-Charge
T: 020 7728 3073
E: reshma.Ravikumar@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the London Borough of Brent (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit & Standards Committee as those charged with governance in our Audit Findings Report on 8 September 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £16,700,000, which is 1.5% of the group's prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 11 September 2020. We included emphasis of matter paragraphs in our reports in respect of the uncertainty over valuations of the Council's land and buildings and of the pension fund's private equity and infrastructure investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	Our work on the Council's consolidation return is in progress and we are working with Council officers to complete this in line with the national deadline.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 11 September 2020.

Executive Summary

Certificate	We are unable to certify that we have completed the audit of the financial statements of the London Borough of Brent until we complete our work on the Council's Whole of Government Accounts procedures.

Working with the Council

The Council has produced the best performance during lockdown of our London client base – timely accounts, good working papers and a responsive attitude to audit queries reflect really well on the Council from an audit perspective. The finance team responsible for the production of the financial statements worked at full capacity throughout lockdown, publishing the draft financial statements by 5 June, well in advance of the revised national deadline. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems. We did not sign off any other audits until November 2020.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
November 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £16,700,000, which is 1.5% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £16,600,000, which is 1.5% of the Council's gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and related parties of £830,000. These areas require a lower level of precision to detect any errors in these specific accounts/areas.

We set a lower threshold of £830,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach; • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely; • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. **Findings** Management produced the draft financial statements and working papers well in advance of the revised national deadline. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Council. The Council's finance team were very responsive to audit queries throughout the audit. We did not identify any implications for our audit report resulting from Covid-19 other than the emphasis of matter paragraph in respect of land and building valuations (refer to page 9 for detail).

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Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement. **Findings** There are no issues to bring to your attention.
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	We: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing (refer to page 19); • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** Our audit did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£925.7m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Considered the impact of Covid-19 in the net assets statement; and • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. **Findings** Our audit did not identify any issues in respect of the valuation of the pension fund net liability.

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Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk

Valuation of land and buildings
 	
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1,401m) and the sensitivity of the estimate to changes in key assumptions.
 	
Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
 	
We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.
	We:
	• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• Evaluated the competence, capabilities and objectivity of the valuation expert;
	• Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
	• Engaged our own valuer expert, Gerald Eve, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS;
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points; and
	    • the valuation methodology and approach of the South Kilburn development revaluation exercise, resulting assumptions and any other relevant points.
	• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
	• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
	
	Findings
	The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.
	
	The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Valuation of land and buildings – continued	**Findings – continued** Our testing of revalued assets identified potential discrepancies between the asset floor areas used for valuations and those held in Council records. As a result of our challenge, and to address the wider material uncertainty around property valuations due to Covid-19, the Council carried out and commissioned the following work: • A review of the impact of Covid-19 on property valuations as at 31/3/20 and as at 31/7/20; • A review of the property plans and areas recorded for Council schools and other key buildings against the areas used for the valuation – where significant discrepancies were identified, a third party review of the area used for the valuations was carried out by an independent MRICS valuer. The result of this work identified a £1.989m net reduction to the value of land and buildings, which is supported by a £3.62m debit to the CIES (which is reversed out of the CIES in the Movement in Reserves Statement, so there is nil impact to usable reserves) and a £1.631m credit to the revaluation reserve. We reviewed the updated valuation report and proposed accounting entries and were satisfied with the treatment.

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Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk
Covid-19 The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund including remote working and challenges with the valuation of year end investments. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. The Pension Fund were able to provide us with financial statements on 5 June 2020 well in advance of the deadline.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 20 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Throughout March and April we held regular meetings with your key finance staff to discuss the impact of Covid-19 on the Pension Fund. We also discussed the financial implications in terms of investment valuations and going concern. This assisted you in complying with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20. The Pension Fund finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports ensuing we got assurance over the completeness and accuracy of information produced by the Pension Fund. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.

Audit of the Financial Statements

Pension Fund Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Fraudulent revenue and expenditure recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the Fund. In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following: • The staff preparing and approving the accounts are consistent with those in previous years; • There have been no changes in accounting processes and controls in the year; • There have been no significant unexplained movements in funding position; • There have been no changes in the methodology for calculation of estimates; and • There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.
Management override of controls	We have undertaken the following work in relation to this risk: • Review of entity controls; • Review of accounting estimates, judgements and decisions made by management; and • Review of unusual significant transactions. Our audit work did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

Pension Fund Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
The valuation of Level 3 investments The Fund re-values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£95m) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have undertaken the following work in relation to this risk: • Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment; • Obtained audited financial statements for the Capital Dynamics (Private equity/Infrastructure) (December 2019), Alinda Fund (Infrastructure) (December 2019), and we checked any cash movements between December 2019 and March 2020; and LCIV (Infrastructure) (March 2020) and compared the audited fund valuation with the Fund Manager capital statements at the same period; • Reviewed the custodian independent valuation of private equity and infrastructure assets, considered the competence, expertise and objectivity of any management experts used; and • Verified the investment balances to the fund manager and custodian reports. We are satisfied that the valuation of level 3 investments are not materially misstated. The Fund has disclosed the uncertainty caused by Covid-19 on the valuation of private equity and infrastructure assets in Note 5.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 11 September 2020.

Preparation of the financial statements

The Council has produced the best performance during lockdown of our London client base – timely accounts, good working papers and a responsive attitude to audit queries reflect really well on the Council from an audit perspective. The finance team responsible for the production of the financial statements worked at full capacity throughout lockdown, publishing the draft financial statements by 5 June, well in advance of the revised national deadline. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit and Standards Committee on 8 September 2020.

In addition to the key audit risks reported above, we identified two adjustments to the Council's financial statements in respect of the revaluation of land and buildings carried out in August 2020 (£3.62m), and a correction to the bad debt provision (£1.6m). The net impact of these adjustments on the financial statements was nil. We identified some minor formatting issues to improve the presentation of the group's financial statements, and a number of disclosure and misclassification issues which were subsequently amended in the revised Statement of Accounts. The Council did not adjust for one item, a £3.6m difference between the housing benefit expenditure charged to the CIES and the corresponding expenditure in the Northgate system.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and alongside the draft Statement of Accounts, in line with the agreed timescales.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Brent Pension Fund on 11 September 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Standards Committee on 8 September 2020.

In addition to the key audit risks reported above, we identified only minor presentation and disclosure issues and the enhancing of disclosure in Note 5 around the uncertainties caused by Covid-19 in relation to the valuation of infrastructure and pooled property investments.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. Our work in this area is in progress and we are working with Council officers to meet the national deadline.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of the London Borough of Brent until we complete our work on the Council's Whole of Government Accounts procedures.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk: Financial outturn and sustainability

1 **The risk as identified in our 2019/20 Audit Plan**

The Authority has historically performed well at managing its financial position. Reductions in funding and increasing demand for services has made this increasingly challenging.

The Authority's proposals in its budget for 2020/21 enable the setting of a balanced budget and set the business plans for 2021/22 and 2022/23, whilst giving some protection to front line services and investing in key projects and priorities. The future funding gap, estimated at £6.1m for 2021/22 and 2022/23, demonstrates the difficult service decisions ahead as central government funding reductions continue to reduce the resources available to meet increasing service demands.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2019/20. We will also review the Authority's reserves position.

Findings

2019/20 Financial outturn

In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but will be a larger impact on 2020/21.

The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The £1.5m overspend in Children and Young Persons (CYP) (in part offset by contingency funds within CYP reserves) and £0.6m overspend in Community Well Being were offset by underspends within Regeneration and Environment.

Overall revenue financial position 2019/20

	Budget (£m)	Actual (£m)	Actual Overspend/ (Underspend) (£m)
Assistant Chief Executive	7.8	7.8	0.0
Chief Executive Department	16.6	16.6	0.0
Children and Young People	48.8	50.3	1.5
Community and Well-Being	136.6	137.2	0.6
Customer & Digital Services	21.2	21.2	0.0
Regeneration & Environment	40.2	38.1	(2.1)
Subtotal Service Area Budgets	**271.2**	**271.2**	**0.0**
Central items (including Business Rates, Council Tax and Specific Grants)	(271.2)	(271.2)	0.0
Total General Fund	**0.0**	**0.0**	**0.0**
DSG Funded Activity	0.0	4.9	4.9
Housing Revenue Account (HRA)	0.0	0.0	0.0
Overall Position	**0.0**	**4.9**	**4.9**

The use of CYP earmarked reserves illustrates that the Council does have ongoing financial pressures which need to be addressed. However, this needs to be put in the context of income growth opportunities the Council's reserves position. Brent has over £134.8m of usable reserves, excluding capital reserves, which can ultimately be deployed to address in-year shortfall. To put this in further context, Brent Council could receive no RSG, council tax or business rates in 2020/21 and still balance the books using reserves. This is a much stronger position than virtually all other councils, however it must be noted that the reserves are earmarked to support strategic projects outlined in the Council's capital programme and many of these reserves cannot be used to support revenue costs. It is also worth noting that the Council is very clear about finding solutions in CYP going forwards.

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond

The Council's MTFS set in 2019/20 identified £11.4m savings required for 2020/21 and a best estimate budget gap of £20m for 2021/22-2022/23. In the November 2019 MTFS update a comprehensive review of technical budget assumptions took place, including a review of the 2020/21 savings plans and estimated savings of £4.28m to be delivered in 2021/22 and £1.77m to be delivered in 2022/23.

As a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has modelled the financial impact based on lockdown periods of 3 and 6 months and has a cost tracker to estimate and record the additional pressures relating to additional expenditure, loss of income, impact on savings and capital programmes, and treasury management issues. The Council estimates the 2019/20 impact to be £0.4m while for 2020/21, a 3-month lockdown period has an estimated lost income impact of £19.8m, with another £14.9m on top of that for a 6-month lockdown. The Council reports these figures to MHCLG fortnightly.

The net cost of Covid-19 to the Council is expected to be £47.6m (£42.7m of additional income and expenditure pressures and £4.9m of slippage in savings plans), which is far in excess of the £21.2m funding to be received from central government. The cost estimates are considerable, and the Council has been working to the assumption that costs will be fully reimbursed. Central government recently announced a new package of support which includes provision for some income losses to be reimbursed where losses are more than 5% of a council's planned income from sales, fees and charges, with central government covering up to 75% of the remainder. Also, any deficits on council tax and business rates income will be allowed to be spread over 3 years rather than 1 year. Detailed workings of the scheme will be confirmed as central government drafts the statutory instrument that will effect the changes. This leaves the Council with an estimated gap of £26.4m before support for income losses is taken into account. If there is a shortfall the Council has contingency plans to keep it on a sound financial footing. The Council will use the full range of options available, including (but not limited to) taking steps to reduce demand for services, implementing further efficiency savings, streamlining processes, and as a last resort re-diverting earmarked cash reserves as a one-off measure. The Council holds general reserves of £15.1m and £146m in earmarked reserves (excluding Community Infrastructure Levy funds and other ring-fenced reserves) which are held to meet specific identified purposes or future expenditure commitments, a large proportion of which are for financing the capital programme.

The Council has modelled indicative forecasts of the council tax base and business rates income going forward. Modelling is challenging for the Council given that:
the Council receives c£50m (approx. 40% of net rates payable) of additional relief from central government to further discount the bills of businesses in retail, leisure and hospitality sectors, as well as small businesses:

- the Council received c£64m from central government to provide grants (between £10k-£25k) to support the above businesses; and
- all other business rate payers having difficulty in paying were offered payment deferrals in line with central government guidance.

Due to the above, the amount of NDR income collected to date compared to budget has changed significantly, and forecasting future collection is dependent on how long different business sectors take to recover, if at all. The Council has modelled business rates collection forecast for 2020/21 for the amounts collected and to be collected over a revised collection profile, against a reduced collectible debit, to support future business rates income projections. However, the amount of business rates the Council is allowed to retain is largely dependent on the future business rates regime and the amount of section 31 grant for certain business sectors. Also, the Council is part of the London business rates pool in 2020/21. London Councils will be modelling the potential impact of a deficit on the pool and individual boroughs and the results are expected later in the year. This exercise along with other intelligence and data gathering exercises on collection rates will be critical to better understand the potential impact on the 2020/21 budget and future budget assumptions for business rates income.

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond – continued

Over the past 2 years, the Council has been addressing historic overspends and undertook a comprehensive review of demographic pressures and other expenditure pressures, ensuring the Council could move to a more sustainable financial position. Following the Covid-19 outbreak the Council's financial position has changed significantly. The impact of the loss of fees and charges, and emergency costs have had an immediate effect on all local authorities. In the longer term there is likely to be further squeeze on public spending, which could impact future funding settlement allocations.

The 2020/21 budget agreed in February 2020 included savings of £7.4m to deliver a balanced budget. Analysis shows that £0.3m of the planned savings are at risk of not being delivered at all, £2.5m of the planned savings have already been delivered, and £4.6m of the planned savings will not be delivered in 2020/21 (the Council will look to make these savings in 2021/22 instead). The 2020/21 budget also agreed business plans which included savings of £4.3m. Along with review and tracking of Covid-19 cost pressures, the savings position is being monitored daily and monthly monitoring reports and forecasts are reported to the Departmental Management Team. At this stage, all indications are that the 2021/22 savings (including the £4.6m of planned savings for 2019/20) will be achieved. Looking ahead, the savings forecasts will be reported quarterly and challenged and CMT and Cabinet, as well as the Resources and Public Realm Scrutiny Committee. As well as reporting progress of savings delivery the update reports will include mitigating actions or other interventions if there are delays in implementation or risk of delivery.

Proposed budget setting for 2021/22

Based on information available to date, the Council estimates that ongoing and recurring pressures will be in the region of £11m to £29m from 2021/22 across all service areas and council tax collection. At this stage, the estimates excludes future losses on business rates whilst further modelling is undertaken. Therefore, without additional funding or relives from central government the budget gap is likely to increase further. The Council's estimates will be refined over the summer and are a major factor in the construction of the 2021/22 budget. Robust and credible plans will need to be developed and agreed in February 2021 to deliver a legally required balanced budget. At this stage, it is not clear when the Spending Review will be announced, or what the LG Finance Settlement for Brent in 2021/22 will be. The lack of clarity means that the Council will need to continue to plan with little or no funding certainty over the medium term. The Council expects to need to take difficult decisions about which services to prioritise and protect, and which to reduce in order to continue to deliver affordable and sustainable budgets.

To close a gap of this magnitude and in a relatively short space of time there are 3 main options:

- Further savings – options are limited given the current savings programme already includes a significant number of efficiencies and new income generation options are likely to be limited.
- Reduce growth assumptions – the current MTFS includes £13m of annual growth but there is a risk that reducing growth assumptions will store up pressures in future years.
- Scale back the capital programme – pausing or stopping specific capital schemes funded by borrowing would free up corporate revenue budgets set aside to provide capital financing.

A further consideration is if central government introduces new interventions specifically for long term Covid-19 related pressures, such as a multi-year minimum funding guarantee to compensate local authorities for income losses beyond their control. Another option may be to allow the capitalisation of losses, which would ultimately be funded by increased borrowing. The options will be further examined to ensure their consequences are properly understood and set out for members and the outcome of the review will be presented to Cabinet as part of the draft 2021/22 budget in October 2020.

Significant risk: Financial outturn and sustainability - continued

❶

2020/21 Budget and beyond – continued

The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £398.4m total usable reserves and capital receipts reserve, £249.3m relates to reserves built up to help to finance the Council's £1bn capital expenditure plans. Excluding the capital reserves, HRA and schools' reserves leaves general fund reserves of £134.8m, which is close to the average level of reserves for London boroughs. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding, and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term. From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most London councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, as the reserves position shows, Brent is maintaining its GF reserve and increasing levels of earmarked reserves. It is overall one of the better placed London boroughs to survive the challenges faced in respect of LG finances and the financial impact of Covid-19. We believe the significant risk of financial outturn and sustainability is mitigated.

Significant risk: Capital programme funding

2

The risk as identified in our 2019/20 Audit Plan

The Authority has an extensive capital programme to invest nearly £780m over 5 years, including significant spend across the GF and HRA to support its strategic vision. Until recently the Authority has utilised internal cash resources to fund the capital programme in lieu of borrowing. Looking ahead, borrowing will be undertaken for specific schemes and prioritised where it can have a net positive impact on the revenue budget and there is a clear capital repayment plan. Over the next 5 years the Authority will require over£470m of borrowing to fund the capital programme, of which the interest costs will be charged to the revenue capital financing budget.

We will consider how the Authority is monitoring its levels of borrowings to meet its capital plans.

Findings

2019/20 Capital programme outturn

In 19/20 the Council spent £232m, 89% of the approved capital programme budget for the year. £0.6m of the £29.2m underspend will be repurposed, with the remainder added to the 20/21 capital programme. Housing makes up the largest amount of the capital spend, and within this there is £12m not spent under the i4B portfolio as viable properties were not available.

As the end of the financial year saw the outbreak of Covid-19, only a few contractors/companies ceased working on site or had reduced site activities. Activity resumed from May onwards and most of the Council's capital programmes and projects have progressed with social distancing measures in place. There were no material impacts.

Table 1 – 2019/20 Final Outturn position

Portfolio / Programme	Revised Budget (Approved Feb20)	Outturn	Over / (Under) Spend to Budget	Over / (Under) spend split	
				2019/20 Slippage C/FWD	Under Spend for Repurposing
	£m	£m	£m	£m	£m
Corporate Landlord	10.553	5.270	(5.284)	(5.284)	–
HCIB - GF	23.190	18.057	(5.133)	(4.613)	(0.520)
HCIB - HRA	110.032	110.489	0.457	0.457	–
PRS I4B	69.749	57.471	(12.278)	(12.278)	–
Public Realm	21.172	17.446	(3.726)	(3.674)	(0.052)
Regeneration	4.049	4.178	0.129	0.129	–
Schools	10.790	9.604	(1.186)	(1.186)	–
South Kilburn	10.628	8.798	(1.830)	(1.830)	–
St Raphael's	0.988	0.652	(0.336)	(0.336)	–
Grand Total	**261.151**	**231.965**	**(29.186)**	**(28.614)**	**(0.572)**

2020/21 Capital budget position

The capital programme for 20/21 has a revised budget of £350.9m. The original budget of £292.5m was approved by full Council in February, including £545m for pipeline schemes. Since February a number of proposals have been removed as decisions have been made not to take forward schemes of £15.2m, and a new scheme of £3.472m for the CCG medical centres was added. The current total of pipeline schemes is £529.9m.

Covid-19 has impacted on construction and infrastructure projects, with labour and material shortages expected. This raises a number of potential risks and considerations for the capital programme from a contractor and Council perspective. Where projects are stalled for an extended period contractors could go bust, resulting in significant delays and increased costs. Although main contractors are protected to some extent, there is no guarantee of the protection being passed to sub-contractors. From the Council's perspective, where projects are delayed this can create cost/income pressures through a reduction or delay in the receipt of income, capital grants, and S106/CIL receipts, which are required to fund capital borrowing costs or contribute to revenue savings targets. There is also a risk that deferral of highways maintenance could lead to higher long-term costs and increased insurance claims. Risks to the capital programme are routinely tracked and monitored. Whilst the Council's capital programme has been largely unaffected, it is predicted that the financial risks from Covid-19 could begin to impact from 20/21 depending on the length of the lockdown. Within the £13m growth assumption underpinning the 20/21 budget it is assumed that interest and debt repayment costs for the capital programme will increase by £0.2m.

Significant risk: Capital programme funding

2

The borrowing position

The Council's MTFS provides regular reviews of the capital financing budget and the MRP to ensure capital investment remains sustainable and affordable. In the past the Council has always minimised interest costs by utilising internal cash resources, however due to the reduction of cash reserves, the need for additional borrowing to finance the Council's capital programme, and the availability of cheaper borrowing, new borrowing has been undertaken in 2019/20.

A key element of the Council's financial strategy is to expand its capital investment programme so that it may deliver substantial revenue savings, e.g. the New Accommodation for Independent Living (NAIL) and Private Rented Sector (PRS) acquisition programmes are forecast to save £3.9m over the next two years. The Council plans to utilise CIL reserves to undertake major infrastructure projects and approval has been given to fund phase 2 of the PRS programme, a further £110m to i4B.

To date, major capital investment has been managed without the need to enter into new borrowing commitments, but it is not possible to continue this indefinitely. The Council's use of £230m internal cash resources to fund the capital programme has meant that the opportunity cost, in lost investment income, is £1.6m (0.7%) per year. If the £230m had instead been borrowed, a 25-year loan at 3% would have cost the Council £6.9m a year in interest payments.

The Council commissioned EY to undertake a forward borrowing strategy review in September 2019, in light of the Borrowing Strategy reported to Cabinet in September 2018 which noted the requirement to raise external funding to support the Council's capital plans. The Borrowing Strategy noted an estimated borrowing requirement of £230m over the period 2019/20 to 2020/21 to address the projected Capital Financing Requirement associated with the expected capital spend. The Council wanted to explore a forward starting loan of up to £40m, and potentially higher given the affordable borrowing limit of £1.2bn, with legal completion desired by 31 December 2019 for a drawdown in 2020. EY assessed the Council's borrowing requirement and evaluated the on-balance sheet debt financing options available to best meet its funding needs. The remit was to take into due consideration the overarching desire to secure certainty of funds at relatively low costs, in particular assessing value for money versus PWLB financing, while retaining flexibility to delay funds. The work was carried out based on EY's understanding of the Council's financing objectives, the CFR and forecasts for the 5-year period to 2023/24. The Council has set aside a £10m provision for MRP which will need to be reviewed regularly to ensure the Council is accounting for debt repayment appropriately through the general fund.

The EY review estimated the total funding requirement for the 5-year period to be c£206m, with the first drawdown not required until 20/21. Suitability of funding markets indicated that due to the ability to secure forward funding and the diversification benefit of the strategy, particularly with respect to the current low interest rate environment and the saturation of PWLB as a funding source, the Private Placement (PP) market appears to be the most attractive funding source for the Council. Although PWLB borrowing is considered low cost, the EY analysis of VFM/discounted cash flow of a delayed PP versus immediate PWLB financing shows broadly comparable costs on a NPV basis, if the full £206m was funded immediately through PWLB. The strategy allows the Council to capitalise on current low interest rates and lock in the cost of funds now rather than risk higher PWLB rates in the future. An additional benefit is that the Council would avoid paying cash interest upfront, estimated to be c£11.2m over 4 years.

The PP market is still a relatively new sector for investors and the Council's strategy is to minimise execution risk by first targeting a modest quantum for its debut issue and, following feedback and bids received, consider upsizing of the debut transaction or re-enter the market at a future date. This strategy minimises the risk of over-leveraging the Council if the capital programme slips. There is a cost to changing the terms of a committed forward borrowing in the PP market so it is recommended by EY that the Council seeks to address its projected funding requirement via PPs, structured through a series of delay drawdown tranches to match the committed/minimum annual level of capex, supplemented by PWLB loans if required.

Significant risk: Capital programme funding

2

The borrowing position – continued

Subsequently, in October 2019 HM Treasury announced an increase to PWLB lending rates from 80bps to 180bps. This would result in a pricing benefit in using the PP market, a significant positive NPV benefit for delayed funding. The change in PWLB rates also strengthens the merits of diversifying funding and reducing reliance on the PWLB market. The other funding options reviewed by the Council include the Municipal Bonds Agency and banks. As set out in the Treasury Management Strategy, the Council has an internally set authorised borrowing limit of £1.2bn. As at December 2019 external borrowing amounted to £491m. Review of the Council's capital financing modelling shows sensitivity analysis of the borrowing requirement for 19/20 to 20/21 to range between £65m-£87m on the basis of 25-35% slippage in the capital programme.

In March 2020 the Council raised £80m unsecured, fixed rate, amortised loans from the Private Placement market. The Council achieved credit spreads of over 60-80 basis points discount on the margin offered by PWLB. This borrowing will fund the Council's ambitious housing and regeneration plans which will have a pivotal role to play in the Borough's post-Covid-19 recovery plans.

Minimum Revenue Provision (MRP)

The Council's planned MRP to 2024/25 is set out below:

£M	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
MRP	10.2	10.2	11.8	13.6	13.1	13.1
TOTAL	10.2	10.2	11.8	13.6	13.1	13.1

Management has instructed officers to conduct a root and branch review of the capital programme to identify suitable schemes that could be paused or stopped altogether, with a view to contributing to relieving Covid-19 budget pressures. The outcome of this (completion planned for September with report to CMT in October) should deliver MRP savings. To a large extent, the Council's current MRP charges are driven by past decisions so MRP changes are not significant, but for those capital schemes funded from revenue contributions/reserves and/or borrowing, the revenue savings could be substantial. Due to the uncertainty of this area the Council continues to monitor potential impact, including impact on the capital financing budget as a whole. The Council does not intend to implement fundamental changes to MPR approaches as the provision is fully funded and factored into the MTFS.

CONCLUSION

Auditor view

To save debt servicing costs and increase diversification the Council sought alternative forms of borrowing from the usual PWLB loans. This borrowing will fund the Council's ambitious housing and regeneration plans which will have a pivotal role to play in the Borough's post-Covid-19 recovery plans. Overall, we believe the significant risk of capital programme funding is mitigated.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of no-audit services.

Reports issued

Report	Date issued
Audit Plan Audit Plan Addendum	March 2020 April 2020
Audit Findings Report	September 2020
Annual Audit Letter	November 2020

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Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table to the right summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	184,184	184,184	160,084
Audit of Pension Fund	25,000	25,000	16,170
Audit of subsidiaries:			
- i4B Holdings Ltd	29,500	29,500	27,000
- First Wave Housing Ltd	27,500	27,500	25,000
Total audit fees	**266,184**	**266,184**	**228,254**

Non-audit fees for other services

	Planned £	Actual fees £	2018/19 fees £
Audit related services			
Grant claim certification:			
- Housing Benefit subsidy return	25,000	TBC	30,000
- Teachers' Pensions return	5,000	TBC	2,500
- Pooling of Housing Capital Receipts return	4,000	TBC	2,000
Total fees	**34,000**	**TBC**	**34,500**

A. Reports issued and fees – continued

Audit fee variations for Council and Pension Fund

As outlined in our audit plan, the 2019-20 scale fee published by PSAA (Council: £153,684, Pension Fund: £16,170) assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Additional fee
Raising the bar (Council and PF)	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	£10,000 (Council) £4,830 (PF)
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£4,000 (Council)
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£9,500 (Council)
Group accounts	Further guidance from the FRC and other parties mean we are required to do more work to analyse how Group components are audited and more detailed testing and review of Group transactions is required.	£4,000 (Council)
New standards – IFRS16	Whilst IFRS16 is only formally adopted from 1 April 2020, local authorities will be required to make an assessment of the potential impact of the new Standard for in this year's financial statements. Therefore additional work will be needed as part of this year's audit to ensure the reasonableness and appropriateness of this disclosure.	£3,000 (Council)
Valuation of Level 3 investments	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of Level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£4,000 (PF)
Council total		**£30,500**
Pension Fund total		**£8,830**

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Audit Progress Report and Sector Update

London Borough of Brent and Pension Fund
Year ending 31 March 2021

8 December 2020

Contents

Introduction

Paul Dossett, Partner

T 020 7728 3180
E paul.dossett@uk.gt.com

Sophia Brown, Senior Audit Manager (Authority)

T 020 7728 3179
E sophia.y.brown@uk.gt.com

Liulu Chen, Audit Manager (Pension Fund)

T 020 7865 2561
E liulu.chen@uk.gt.com

This paper provides the Audit & Standards Advisory 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 Audit & Standards Advisory 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 Partner or Engagement Managers.

Progress at December 2020

Financial Statements Audit

We issued the opinions on the Council and Pension Fund financial statements on 11 September 2020.

We will issue the audit certificate once work on the Whole of Government consolidation pack audit procedures and review of the Pension Fund annual report are complete. The work is on track to meet the respective deadlines in early December.

Our work on the 2020/21 financial statements audit will commence in the New Year.

Other areas – Meetings

We met with the Director of Finance and officers in November as part of our regular liaison meetings. We also met with your Chief Executive in September to discuss the Council's strategic priorities and plans. These meetings form part of our planning process for the 2020/21 financial statements audit.

Certification of claims and returns

Our work on the certification of the Council's annual Housing Benefit subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP) is underway. It should be noted that, in response to the impact of the Covid-19 pandemic, the DwP has moved the reporting deadline to 31 January 2021.

Our work on the Teachers' Pensions return is complete and going through our review and quality processes, on track to meet the reporting deadline at the end of November.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Our work on the Council's 2019/20 Value for Money conclusion is complete and we issued an unqualified Value for Money conclusion on 11 September 2020.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ended on 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/

Audit deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2020/21 financial statements.	March 2021	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2021	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the September Audit and Standards Advisory Committee.	September 2021	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2021	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2021	Not yet due

Sector update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – "The Redmond Review" was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes "A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process."

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council's (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

The Redmond Review – Local Government audit and financial reporting

Scope

- Launched September 2019.
- Led by Sir Tony Redmond, former President of CIPFA.

Purpose

To assess the:

- Effectiveness of audit in local authorities; and
- Transparency of financial report.

Context – Why the need for a review?

Local audit is facing an unprecedented set of challenges:

- Accounts have grown far more complex
- Authorities are engaging in more innovative/unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight, even without Covid-19 pressures
- Retention of audit staff is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical and urgent reform is needed

Areas of focus – It is a wide-ranging review

- The expectations gap
- Audit and wider assurance
- Audit quality
- The financial reporting framework
- Auditor reporting

The review had 156 responses, over 100 interviews were held, the report runs to 83 pages with 23 recommendations.

The system is not working

The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure des not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19 this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new firms to the local authority market has not been realised.

The Redmond Review – Local Government audit and financial reporting

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systematic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman).
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority, based on their level of audit risk, has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors, including other parts of the public sector, have significantly risen.
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.

Financial reporting is overly complex/not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting, e.g.:

➢ Asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value.

➢ Going concern disclosures are perceived to be less relevant in a local authority context than financial resilience.

Governance and transparency of reporting needs improvement

- The ability of audit committees, which mostly lack independent, technically qualified members, to consider effectively audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective, is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves. Auditors coming through the system are not developing wider understanding of LG context.
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC.
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/LASAAC.

The Redmond Review – Local Government audit and financial reporting

Sir Tony's recommendations

A call for action

- **A new regulator** – The Office of Local Audit and Regulation to replace the FRC and PSAA.
- **Scope to increase fees** – The current fee structure for local audit to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- **Move back to a September deadline** – The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- **Accounts simplification** – CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.
- Recognition of the **role of authorities in improving governance and reporting**; and
- Development of **audited and reconciled accounts summaries**.

Where next?

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation.

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

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 most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

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Value for Money - Key changes

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

- A new set of key criteria, covering governance, financial sustainability and improvements in 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 new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:
https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

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Auditor Guidance Note 3 (AGN 03)
Auditors' Work on Value for Money (VFM) Arrangements
Version issued on: 15th October 2020

About Auditor Guidance Notes
Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

AGN 03 is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

AGN 03 is not relevant to assurance engagements at smaller authorities for which the specified procedures are set out in AGN 02.

Introduction

This AGN sets out guidance for auditors to support their work on value for money (VFM) arrangements. It covers all sectors, and is structured as follows:

Contents

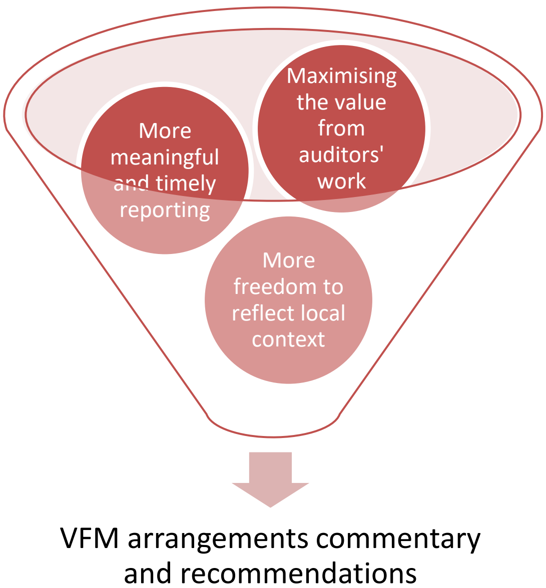
Purpose of this AGN

1. On 1 April 2020, a new Code of Audit Practice (the 2020 Code) came into force. This AGN sets out how local auditors are expected to approach and report their work on VFM arrangements under the new Code and applies to audits of 2020-21 financial statements onwards.

2. Following extensive public consultation in 2019 on the development of a new Code, it was clear that it was an appropriate time to re-visit the work of local auditors in this area. Taxpayers, stakeholders and local service users rightly expect that the bodies responsible for their local public services will have arrangements in place to allow them to manage their finances and services and deliver their objectives. Therefore, it is important for local auditors to understand and comment on those arrangements, including drawing attention to areas of significant weakness or other concerns where they arise.

3. The approach set out in this AGN re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VFM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.



4. A flexible and responsive approach is needed to discharge the auditor's duty to be satisfied whether bodies have proper arrangements in place to secure value for money[1]. The 2020 Code sets out a new approach to auditors' work in this area, which has been designed to enable auditors to meet these expectations.

5. From 2020-21 audits onwards, the key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, published as part of the Auditor's Annual Report[2]. The commentary will enable auditors to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the body's attention, along with their recommendations for improvement. The commentary will, however, also allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.

6. Section 20 and 21 of the Act require auditors to be satisfied that the body *"has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources"*. The Act also requires local auditors to give their opinion on the statement of accounts, which they do in accordance with International Standards on Auditing (ISAs). The auditor's work on VFM arrangements – including their commentary – is, however, not undertaken in accordance with ISAs, but rather in accordance with the Code and its supporting statutory guidance. The C&AG has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor's Annual Report; it is therefore not a VFM arrangements 'conclusion' or an 'opinion' in the same sense as the opinion on the financial statements themselves. The statutory duty to report where the auditor is not satisfied with arrangements is discharged through compliance with the exception reporting section of this AGN. This means that there may be matters referred to in the auditor's commentary, but which do not represent significant weaknesses in arrangements and therefore do not appear by exception in the auditor's opinion on the financial statements. Auditors are reminded, however, that they should adopt an integrated approach to their work on VFM arrangements and the opinion on the financial statements and plan their work and consider the findings accordingly.

7. The 2020 Code states in paragraph 4.6 that *"the auditor's annual report should be published at the same time as the opinion on the financial statements for local NHS bodies. For relevant authorities other than local NHS bodies, the auditor's annual report should be published no later than 30 September. Where the auditor is unable to do this, they should issue an audit letter including a statement explaining the reason for the*

[1] The Local Audit and Accountability Act 2014 expresses this as being satisfied *"that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources"*
[2] The Auditor's Annual Report constitutes an audit letter for the purposes of local bodies complying with the Accounts and Audit Regulations, Department of Health and Social Care Group Accounting Manual and the NHS Improvement NHS Foundation Trust Annual Reporting Manual.

delay." The audit letter should be issued to those charged with governance.[3]

Transitional Considerations

8. This AGN applies to 2020-21 audits from the date of publication (15th October 2020), therefore, during the first year of implementation of the 2020 Code and associated guidance, auditors are only required to have regard to this AGN from the date of publication onwards.

The Legal and Professional Framework

9. This AGN is consistent with the relevant requirements of the Local Audit and Accountability Act 2014 (the Act) and the 2020 Code of Audit Practice (the 2020 Code), which sets out how auditors meet their responsibilities under the 2014 Act. In undertaking VFM arrangements work, auditors are required to comply with the Code and to have regard only to the guidance set out in this this AGN.

Subject Matter – Definitions of Proper Arrangements

10. The subject matter for the purposes of auditors' work under this AGN is a local body's arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Act and the 2020 Code require auditors to consider whether the body has put in place 'proper arrangements'. This AGN sets out the arrangements that fall within the scope of 'proper arrangements'.

11. The 2020 Code states in paragraph 3.7 that the *"auditor's work should be underpinned by consideration of what arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements."*

12. In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through annual governance statements. These arrangements should be appropriate and proportionate to the nature of the public body and the services and functions that it has been created to deliver.

13. This AGN draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

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[3] An audit letter that includes a statement explaining reasons for a delay also constitutes an audit letter for the purposes of local bodies complying with the Accounts and Audit Regulations, Department of Health and Social Care Group Accounting Manual and the NHS Improvement NHS Foundation Trust Annual Reporting Manual.

14. When reporting on these arrangements, the 2020 Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- **Financial sustainability: *how the body plans and manages its resources to ensure it can continue to deliver its services, including:***
    - how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
    - how the body plans to bridge its funding gaps and identifies achievable savings;
    - how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
    - how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
    - how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.
- **Governance: how the body ensures that it makes informed decisions and properly manages its risks, including:**
    - how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
    - how the body approaches and carries out its annual budget setting process;
    - how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
    - how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
    - how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or

member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

- **Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:**
    - how financial and performance information has been used to assess performance to identify areas for improvement;
    - how the body evaluates the services it provides to assess performance and identify areas for improvement;
    - how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
    - where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Auditor's Approach

15. The auditor will need to gather sufficient evidence and document their evaluation of it in order to enable them to draft their commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

16. The evidence required to support the commentary is a matter of auditor judgement but should be sufficient to enable an experienced auditor with no prior knowledge of the body to understand the basis for the auditor's judgements on significant weaknesses, as well as understand any recommendations made.

17. The work that auditors do on the specified reporting criteria should be based on the understanding that it is the audited body's responsibility to ensure that they have proper arrangements in place.

18. The auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

Planning

Understanding the body's arrangements and risk assessment

19. The auditor should document their understanding of the arrangements the body has in place for each of the specified criteria set out in the Code and this AGN, gathering sufficient evidence to support their risk assessment and commentary in the Auditor's Annual Report.

20. Auditors may draw on the relevant principles of understanding the entity and its environment*,* when understanding the body's arrangements in place - specifically:

    - ***Assertions*** – representations by management: understanding the arrangements that the body itself should be reporting on through its annual governance statement and narrative statement (where applicable).

    - ***Internal controls –*** paragraph 3.7 of the 2020 Code states the "auditor's work should be underpinned by consideration of what arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements." The auditor's work should be to understand the arrangements in place at the entity level and how the body itself ensures compliance with its system of internal control as reported on in its annual governance statement.

    - ***Risk assessment –*** the procedures performed to obtain an understanding of the body's arrangements against the specified reporting criteria to identify where further work may be necessary.

21. In completing and documenting their planning work auditors should consider:

    - cumulative knowledge brought forward from previous audits;

    - relevant findings from work undertaken in support of the opinion on the financial statements (for example, understanding the entity and any testing on key systems and controls);

    - reports from the audited body including internal audit which may identify potential significant weakness through reporting on arrangements which are not operating effectively, or identify financial difficulty, for example, a section 114 report in local government;

    - interviews/discussions with key members and officers;

    - information disclosed or available to support the annual governance statement and annual report (where applicable), including any key performance indicators the body is using to measure the quality and effectiveness of its services;

- information available from the audited body's own risk registers, committee or board papers including scrutiny and standards boards;
- recommendations from significant weaknesses identified in previous years; and
- other information available from external sources, such as relevant inspectorates, government departments or national bodies. Where auditors make use of such findings, they are not required to re-perform the work.

22. In addition to indicators of significant weaknesses that may be identified by the planning work above, the following activities may also indicate risks of a significant weakness, including, but not limited to:

- organisational change or transformation, including mergers or local authority reorganisation;
- outsourcing, or transfer to alternative delivery models, e.g. formal partnerships, mutuals, social enterprises, joint ventures, or transferring services and functions back in-house/insourcing etc;
- major capital projects;
- commercial activities, such as investment or trading, where the organisation has not considered the risks and benefits and is not managing those risks;
- debt restructuring, especially where this involves entering into unusual or complex forms of new borrowing, or is being used to finance unusual or complex schemes; and
- legislative/policy changes requiring a body to take on a significant new function(s).

23. Depending on the nature and complexity of the arrangement, this may require the auditor to consider the use of an expert to understand the body's arrangements.

24. Auditors should set out the results of their risk assessment as part of their audit planning report to those charged with governance. This should include any additional work planned in respect of any identified risks of significant weaknesses.

25. The auditor should keep their understanding of arrangements under review to inform the commentary. Where appropriate, the auditor should update their work to reflect emerging risks or findings that may suggest a significant weakness in arrangements. The auditor should document any resulting changes to their planned work and ensure these are communicated to the audited body.

Additional risk-based procedures and evaluation

26. Determining the amount of evidence necessary to inform their commentary and consider significant weaknesses is a matter of auditor judgement, but appropriate sources of evidence will be similar to those outlined at the planning stage in paragraphs 21 and 22.

27. Where the auditor's planning work has identified risks of significant weakness, the auditor should consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions.

28. Where the auditor has sufficient evidence from their planning work that corporate processes should identify arrangements which are not operating and enable corrective action to be taken, including being satisfied with internal audit, then the auditor does not need to undertake further work to confirm for themselves that arrangements are operating as expected. However, where planning work has identified a risk that arrangements are not operating in practice, the auditor may wish to carry out additional work such as testing the underlying controls relating to those arrangements, but only in so far as the auditor judges necessary to inform their understanding of the significance of the weakness.

29. Auditors do not need to gather evidence of outcomes in order to inform their commentary on the arrangements in place, but should consider undertaking additional procedures where information coming to their attention, for example evidence of significant service or business continuity failure, suggests there may be a significant weakness in arrangements.

Identification of 'significant weaknesses'

30. In undertaking their work, auditors should consider whether there is evidence to suggest that there are significant weaknesses in arrangements. When considering the significance of weaknesses, auditors are expected to include consideration of the significance of business and operational risks insofar as they relate to the subject matter and the scope of 'proper arrangements' set out in paragraphs 10-14.

31. For the purposes of auditors' work under the 2020 Code and this AGN, being 'not satisfied that the body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources' means having identified a significant weakness in arrangements as part of their work with associated recommendations to the body aligned to the reporting criteria set out in the 2020 Code and this AGN.

32. An auditor's assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement, based on their

evaluation of the subject matter in question, including adequacy of the body's responses.

33. Auditors should, however, have regard to the following characteristics. A weakness may be said to be significant if it:

- exposes – or could reasonably be expected to expose – the body to significant financial loss or risk;
- leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the body's reputation;
- leads to – or could reasonably be expected to lead to – unlawful actions; or
- identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

34. Determining whether an identified weakness is 'significant' is a matter of auditor judgement, but should be informed by their consideration of:

- the magnitude of the issue in relation to the size of the body;
- financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- the impact of the weakness on the body's reported performance;
- whether the issue has been identified by the body's own internal arrangements and what corrective action has been taken or planned;
- whether any legal judgements have been made including judicial review;
- whether there has been any intervention by a regulator or Secretary of State;
- whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- the impact on delivery of services to local taxpayers; and
- the length of time the body has had to respond to the issue.

35. Auditors should also consider their findings in relation to their judgement on the arrangements in place *during the year*. In that context, the auditor's judgement should focus on how the body's arrangements in-year are supporting it in addressing the relevant issues. Significant weaknesses that have already been identified and reported

do not need to be repeated, unless the auditor has identified a significant weakness in the body's arrangements for responding. Auditors may, however, elect to draw the reader's attention to representations in the body's annual governance statement in relation to issues that have previously been reported. The auditor's commentary should include details of the body's progress against relevant recommendations made previously by the auditor.

36. Where the audited body is the administering authority for a pension fund, auditors should take account of any information that suggests significant weaknesses in the administering authority's arrangements in respect of the governance and management of the pension fund.

Illustrative significant weaknesses

37. While it is a matter of auditor judgement to determine when a weakness in arrangements is significant, the following may be helpful in suggesting the type of issues that could indicate a significant weakness. The suggestions are, however, not exhaustive, and auditors should have regard to relevant local context. Where the auditor has exercised – or considered exercising – any of their additional statutory reporting powers, auditors may also wish to consider whether this is indicative of a significant weakness in VFM arrangements.

38. ***Financial sustainability:***

- Unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan.

- Seeking to make significant use of capital resources to relieve short-term revenue pressures.

- Significant inconsistencies between budgetary information and the financial position as reflected in the financial statements.

- Financial plans based on key assumptions that are unrealistic, e.g. are over-reliant on uncertain income streams that are significant to the delivery of plan, or not backed by appropriate supporting evidence.

- Unsustainable planned use of reserves to bridge funding gaps.

- Significant unplanned use/reliance on reserves to cover unplanned spending.

- Persistent failure to meet savings plans or financial targets.

39. ***Governance:***

- Decision making that is unlawful, or could lead to significant loss or exposure to significant financial risk, or reputational risk such as conflicts of interests.

- Serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

- Failure to implement or achieve progress on recommendations raised, either as a result of previous external audit recommendations, or those from another regulator or inspectorate.

- Pervasive and significant weaknesses in internal controls, especially where these have had a significant financial/service-delivery impact or exposed the body to fraud.

- A weak or ineffective audit committee that fails to provide appropriate challenge or hold officers and members to account.

- Significant or repeated departure from key regulatory and statutory requirements or professional standards, such as the CIPFA Financial Management Code, Prudential Code, Treasury Management Code, departmental statutory guidance issued to local government and local NHS bodies, etc. Note that in assessing arrangements, auditors are not expected to test bodies' compliance, for example with the CIPFA Financial Management Code, but evidence of significant failures to comply could be indicative of a significant weakness in arrangements.

40. ***Improving economy, efficiency and effectiveness:***

- Failure to take appropriate action or secure improvement in areas where the body has identified, or a relevant inspectorate or regulatory body has identified, weaknesses in terms of cost/effectiveness or service performance.

- Significant financial loss or failure to deliver efficiency/performance improvements as expected when working through significant partnerships.

- Significant financial loss or failure to deliver efficiency/performance improvements as expected when managing significant outsourced contracts/services.

41. The risk of significant weaknesses may also increase where the body is involved in or planning activities as set out in paragraph 22 above.

42. In considering service and financial sustainability, auditors are not expected to apply a pre-determined timeframe when evaluating subject matter information. Rather, auditors should consider the timeframe that is appropriate to the nature of the subject matter

and the subject matter information, taking account of the differing levels of certainty with which bodies in different sectors may be able to plan into the future. In some cases, such as major outsourcing or capital projects, or major transformation such as a structural reorganisation, the appropriate timeframe could extend significantly beyond that which is covered by annual or medium-term financial plans.

43. Where auditors have identified significant issues arising from their work on the financial statements, they should consider whether they highlight a significant weakness that needs to be reported to the body. Also, auditors should be mindful that weaknesses identified under one reporting criterion, for example, improving economy, efficiency and effectiveness, may indicate weaknesses relevant to the other reporting criteria. For example, indicators of higher than expected service costs could also be indicative of poor financial planning or budgetary control arrangements.

Major incidents and assessment of significant weakness

44. In any financial year, it is possible that major incidents may occur that have a significant impact on bodies' arrangements for securing VFM. During March 2020, the UK government began its response to the coronavirus pandemic (Covid-19). The response will have significant implications for local government and local NHS bodies. These bodies will need to adapt many – if not all – of their arrangements to adjust to both significant increases in demand for some services, such as health and emergency services, and new ways of working as a result of the severe restrictions placed on the public. While this section is primarily directed towards arrangements relating to the coronavirus pandemic, the principles are equally applicable to any unforeseen major incident that may occur.

45. The previous AGN 03, issued on 16 April 2020 clarified that *"only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion".*

46. To inform their 2020-21 work on arrangements, auditors will therefore need to consider how bodies' arrangements have adapted to respond to the new risks they are facing from 2020-21 onwards as a result of the pandemic, including clearly setting out whether they have identified any significant weaknesses in those arrangements. In doing this, the auditor's risk assessment will need to recognise that some bodies may have needed to review and adjust performance targets and internal governance arrangements on an ongoing basis to adapt. Failure to achieve original targets or comply with previously existing governance arrangements may therefore not in themselves indicate a significant weakness but may still be relevant to the auditor's commentary.

Reporting

47. The 2020 Code requires auditors to report in a commentary each year under the specified reporting criteria and expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with those charged with governance at the body[4].

Recommendations

48. Paragraph 3.14 of the 2020 Code requires that where the auditor has concluded that there is a significant weakness in a body's arrangements, they should report this to the body and support it with a recommendation for improvement setting out:

- their judgement on the nature of the weakness they have identified;
- the evidence on which their view is based;
- the impact on the local body (or the possible future impact); and
- the action the body needs to take to address the weakness.

49. Where the auditor has raised a recommendation in relation to a significant weakness in arrangements, the recommendation should be clearly labelled as such.

50. Auditors may make recommendations at any time during the year and should include any recommendations in respect of significant weaknesses that have been made, the adequacy of the body's response and progress to date in the Auditor's Annual Report. The auditor should summarise this as part of their commentary on arrangements.

51. Auditors also have a range of additional reporting powers under the Act, including:

- statutory (written) recommendations under Schedule 7 of the Act;
- reports in the public interest; and
- advisory notices.

52. Auditor Guidance Note (AGN) 07 *Auditor Reporting* sets out guidance that auditors should consider when deciding whether to exercise any of their discretionary powers to report. In particular, auditors should consider the following regarding how and when to exercise additional reporting powers:

- the seriousness of the significant weakness in arrangements which has come to their attention or which they have identified during the audit;

[4] 2020 Code of Audit Practice – paragraph 1.19

- whether the body itself recognises the need to address a concern and is taking appropriate action in a timely way;

- what information is already in the public domain and whether there is merit in bringing the matter to the attention of the public in the interests of openness, transparency and accountability or to facilitate dissemination of learning to other public bodies;

- which form of reporting is likely to be most effective in helping the audited body to understand the significance of the matter and the need to take action; and

- whether previous reporting has been acted upon and, if not, whether more prominent reporting – such as issuing a statutory recommendation or a report in the public interest – is now necessary.

53. Where an auditor considers it appropriate to exercise one or more of their additional powers in respect of a significant weakness in arrangements to secure VFM that includes recommendations for action, there is no requirement to make a separate recommendation to the one already raised. As stated in paragraph 49 above, the auditor should clearly label recommendations raised in response to a significant weakness in arrangements. Auditors should ensure that the nature of the significant weakness and the associated recommendation are referred to by exception in their report on the financial statements where required, and that they are included in the Auditor's Annual Report.

54. Where the auditor issues a public interest report (PIR) related to a significant weakness in arrangements, but does not make a recommendation in the PIR, they should still make an associated recommendation immediately to those charged with governance. This should also be included in the Auditor's Annual Report as set out in paragraph 50 above.

55. Where the auditor of an NHS body has issued a 'referral of matters arising'[5] , the auditor should consider whether the matter reflects a significant weakness in the body's arrangements which therefore requires the auditor to make a recommendation in response to the issues referred.

Commentary on arrangements

56. The commentary should include a summary under each of the specified reporting criteria that sets out the work the auditor has undertaken during the year including the auditor's risk assessment as set out in paragraph 20 above. The commentary should also provide a clear narrative in plain English that explains to the reader the auditor's judgements in relation to their findings and any local context the auditor wishes to include to explain

[5] Referral to the Secretary of State under Section 30 and Schedule 13 of the Local Audit and Accountability Act 2014 for bodies other than NHS foundation trusts, or referral to the relevant NHS regulatory body under Schedule 10 of the National Health Service Act 2006 for NHS foundation trusts.

their findings. Describing the arrangements that are in place at an audited body would not meet this responsibility.

57. Where an auditor has identified, as a result of their work, significant weaknesses in arrangements up to 31 March 2021 and has made a recommendation in relation to the weaknesses, they should explain this in their commentary. The commentary should also include any significant weaknesses and recommendations made in relation to the 2021-22 financial year where these have come to the auditor's attention. Equally, where an auditor has not identified a significant weakness in arrangements this should be reflected in their commentary. Where auditors are making use of information from external sources, such as relevant inspectorates, government departments or national bodies, the auditor should clearly identify that they are doing so in their commentary and any associated exception reporting.

58. Auditors may include in their commentary any other matters arising from their work that, in their professional judgement, are significant to the auditor's consideration of arrangements to secure VFM. Auditors may also include areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements.

59. Auditors of a police and crime commissioner (or police, fire and crime commissioner) and chief constable can issue a combined Auditor's Annual Report and commentary, however, where an auditor has identified a significant weakness in arrangements the commentary should identify clearly which entity the weakness relates to.

Follow-up of previous recommendations

60. Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to the status of the recommendations and whether they have been implemented satisfactorily within the Auditor's Annual Report.

Exception reporting – auditor's report on the financial statements

61. As set out at the start of this AGN, the 2014 Act requires auditors to be satisfied that bodies have proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources. Under Schedule 6 of the 2014 Act, the C&AG is required to publish a Code of Audit Practice (the 2020 Code) that sets out how auditors discharge their responsibilities under the Act. The C&AG may also issue guidance to which local auditors must have regard when carrying out their work. The 2014 Act also requires auditors of some local bodies, where they are not satisfied with the arrangements bodies have in place, to refer to this by exception in their report on the financial statements. For consistency, the 2020 Code applies the concept of exception reporting to all bodies covered by this AGN.

62. Chapter Three of the 2020 Code covers auditors' work on VFM arrangements and specifies the following reporting requirement in paragraph 3.14: *"Where the auditor*

identifies significant weaknesses in arrangements as part of their work on arrangements to secure value for money, they should make recommendations." The 2020 Code further expects that auditors will raise such matters promptly during the course of the audit.

63. Chapter Four of the 2020 Code, in relation to the auditor's report of the financial statements, requires in paragraph 4.5 that: *"Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception."*

64. Accordingly, under the 2020 Code and this AGN, auditors will have discharged their responsibilities by including reference in their auditor's report on the financial statements to matters where they have reported, to the audited body, a significant weakness in arrangements to secure VFM up to 31 March 2021. Any significant weaknesses identified in relation to arrangements in place in 2021-22 would not therefore be included until the following year.

65. There may be occasions when the auditor has yet to conclude whether a significant weakness exists in relation to a particular issue, or for local government bodies has yet to decide an objection at the time the opinion on the financial statements is due. In these circumstances, auditors should not delay issuing their opinion on the financial statements unless the issue is likely to have a material impact on the accounts. Auditors should however reflect the current status of any such issues in their commentary.

66. Auditors are not required to issue repeat recommendations but, there may be occasions where a significant weakness remains in place, for example, an issue reported in previous years and which has not yet been addressed but should have been included in the annual governance statement. In such cases, auditors should draw attention to these issues as part of their exception reporting and continue to refer to them as part of their commentary for as long as they remain relevant.

Subsequent events

67. Information relevant to the auditor's view about a body's performance or arrangements comes to the auditor's attention throughout the year. Therefore, it is possible that new information will come to the auditor's attention after they have issued their report on the financial statements.

68. Where the auditor has not yet issued their 2020-21 Auditor's Annual Report, they are not required to undertake further procedures to identify any additional reporting issues.

69. Where new information relating to 2020-21 comes to the auditor's attention after they have issued their report on the financial statements, auditors are not required to revisit their report on the financial statements but should:

- refer to the matter in their 2020-21 Auditor's Annual Report; and

- include reference to the matter in respect of a significant weakness in their report on the 2021-22 financial statements by exception.

70. For significant weakness relating to 2021-22, auditors should:

- report the weakness to the body promptly and make an appropriate recommendation in accordance with the requirements of this AGN (this could be achieved by including the issue in a report to those charged with governance);
- refer to the matter in their 2020-21 Auditor's Annual Report; and
- include reference to the matter in respect of a significant weakness in their report on the 2021-22 financial statements and their 2021-22 Auditor's Annual Report.

71. Once the 2020-21 Auditor's Annual Report has been issued auditors should include any new significant weaknesses identified in their 2021-22 Auditor's Annual Report irrespective of the year to which they relate.

Approach to VFM arrangements work at bodies demising during the year

72. It is possible that some audited bodies may demise part way during a financial year (for example, due to a reorganisation in the NHS).

73. In such circumstances, while having regard to this guidance, auditors are not required to issue a commentary on arrangements or an Auditor's Annual Report in respect of the demised body. The requirements of AGN 03 will, however, apply in full to any successor body, with effect from the first part-year onwards.

74. Where information comes to the auditor's attention that indicates that there are significant weaknesses in a body's arrangements to secure VFM, or where the auditor is aware of significant issues through prior audit knowledge auditors are expected to bring such matters to the attention of the appropriate successor body or its auditor.

Supporting Information

75. In addition to this AGN, auditors have access to sector-specific supporting information, prepared by the NAO.

76. The supporting information does not form part of the statutory guidance to which auditors must have regard, but it helps auditors to understand the key developments and risks that are relevant to VFM arrangements in each sector.

77. The supporting information is updated as and when required, to reflect any significant developments during the year. Auditors are notified of any updates to the supporting information via the WAC.

78. If, in exceptional circumstances, the NAO identifies the need for further statutory guidance to be issued in respect of the current audit year, this may be issued by the C&AG through an updated AGN.

Raising Technical Issues or Queries on this AGN

79. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.org.uk.

80. The NAO also engages with the firms through its Local Auditors' Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their supplier's representative on LAAG or the relevant technical network.

Agenda Item 16

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A&SAC FORWARD PLAN / WORK PROGRAMME / UPCOMING AGENDA

Topic / Date	05-May-20	26-May-20	29-Jul-20	08-Sep-20	08-Dec-20	11-Feb-21	31-Mar-21	11-May-21
Internal Audit & Investigations								
Internal Audit Annual Report, including Annual Head of Audit Opinion			X					
Review Internal Audit Charter								
Internal Audit and Counter Fraud Progress Reports		X			X	X		X
Draft Internal Audit and Investigations Annual Plan							X	
External Audit								
External Audit progress report		X	X	X	X	X	X	X
External Audit plan		X				X		
External Audit - Certification of grants and returns							X	
Statement of Accounts & External Auditor's Report				X				
External Auditor Annual Audit Letter		X			X			
Financial Reporting								
Treasury Management Mid-term Report					X			
Treasury Management Strategy & Annual Investment Strategy					X		X	
Statement of Accounts			X	X*				
Treasury Management Outturn Report			X					
Governance								
To review performance & management of i4B Holdings Ltd and First Wave Housing Ltd		X			X			X
Review of the use of RIPA Powers		X						X
Receive and agree the Annual Governance Statement	X*							X*
Risk Management								
Strategic Risk Register Update					X	X		
Emergency Preparedness	X							
Audit Committee Effectiveness								
Review the Committee's Forward Plan	X	X	X	X	X	X	X	X
Review the performance of the Committee (self-assessment)								
Training Requirements for Audit Committee Members as required								
Standards Matters								
Standards Report (including gifts & hospitality)		X		X	X	X		X
Annual Standards Report		X						X
Complaints & Code of Conduct				X*				
Review of the Member Development Programme and Members' Expenses							X	

* Requires approval by Audit & Standards Advisory Committee

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