



Audit and Standards Advisory Committee

Tuesday 7 December 2021 at 6.00 pm

Conference Hall - Brent Civic Centre, Engineers Way,
Wembley, HA9 0FJ

Please note that this meeting will be held as a socially distanced physical meeting with all Committee members required to attend in person.

Guidance on the safe delivery of face-to-face meetings is included at the end of the agenda front sheet.

Due to current restrictions and limits on the socially distanced venue capacity, any press and public wishing to attend this meeting are encouraged to do so via the live webcast. The link to attend the meeting will be made available [here](#).

Membership:

Members

David Ewart (Chair)

Substitute Members

Councillors:

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

Councillors:

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

Councillors:

Colwill and Maurice

Independent Members

Javed Ansari
Mark Mills

Independent Advisor

Vineeta Manchanda

For further information contact: Andrew Phillips, Governance Officer
Tel: 020 8937 4219; Email: Andrew.Phillips@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:

www.brent.gov.uk/committees

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 or trade union).
 - (b) The interests 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
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1	Apologies for absence and clarification of alternate members	
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2	Declarations of Interest	
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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)	
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To hear any deputations received from members of the public in accordance with Standing Order 67.

4	Minutes of the previous meeting	1 - 16
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To approve the minutes of the previous meeting held on Wednesday 22 September 2021 as a correct record. (Republished to include minutes on 3 December 2021)

5	Matters arising (if any)	
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To consider any matters arising from the minutes of the previous meeting.

Standards Items

6	Standards Report (including Gifts and Hospitality)	17 - 20
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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.

Ward Affected:
All Wards

Contact Officer: 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

7 Review of the Constitutional Working Group

21 - 28

In response to a recommendation from the Resources and Public Realm Scrutiny Committee, this report provides a review of the current role and operation of the Constitutional Working Group (CWG). It provides some information about practices elsewhere, highlights steps taken already in response to the Scrutiny Committee recommendation and proposes that a further review be undertaken following the Local Elections in May 2022.

Ward Affected:

All Wards

Contact Officer: Debra Norman

Director of Legal, HR, Audit & Investigations

Tel: 020 8937 1578

Email: Debra.Norman@brent.gov.uk

8 Review of the Financial and Procedural Rules governing the Mayor's Charity Appeal

29 - 38

The purpose of this report is to update the Audit and Standards Advisory Committee on a recent review of the financial and procedural rules for governing the Mayor's Charity Appeal.

Ward Affected:

All Wards

Contact Officer: Debra Norman

Director of Legal, HR, Audit & Investigations

Tel: 020 8937 1578

Email: Debra.Norman@brent.gov.uk

Audit Items

9 Cyber-Security Strategy implementation update

39 - 84

At the last meeting of the ASAC, it was agreed that a report be brought back to the next Committee regarding the actions that the Council are taking in relation to cyber security. The report at Appendix 1 provides an update on progress in implementing the Brent and Shared Technology Service (STS) cyber security Strategies.

Ward Affected:

All Wards

Contact Officer: Sadie East, Operational

Director Transformation

Tel: 020 8937 1507

Email: Sadie.east@brent.gov.uk

10 CIPFA Financial Management Code and Redman Review - Progress Report

85 - 98

This report is to update the Committee on progress to implement the CIPFA Financial Management Code and the Redmond Review of Audit

and Transparency in Local Authority Financial Reporting.

Ward Affected:

All Wards

Contact Officer: Ravinder Jassar

Deputy Director of Finance

Tel: 020 8937 1487

Email: Ravinder.Jassar@brent.gov.uk

11 Treasury Management Update (Item republished on 3 December 2021)

11.1 Treasury Management Mid-Year Report 2021-21

99 - 110

This report updates Members on treasury activity for the first half of the financial year 2021-22.

11.2 Treasury Management Strategy

111 - 134

This report presents the draft Treasury Management Strategy (TMS) for 2022/23 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 7 February 2022.

Ward Affected:

All Wards

Contact Officer: Amanda Healy

Head of Finance

Tel: 020 8937 5912

Email: Amanda.Healy@brent.gov.uk

12 Internal Audit Charter

135 - 154

This report sets out the revised Internal Audit Charter, which has been appended to the report for consideration and approval.

Ward Affected:

All Wards

Contact Officer: Darren Armstrong

Head of Audit & Investigations

Tel: 020 8937 1751

Email: Darren.Armstrong@brent.gov.uk

13 External Audit Progress Report

155 - 174

This paper provides the Audit and Standards Advisory Committee with a report on Grant Thornton's progress in delivering their responsibilities as external auditors.

Ward Affected:

All Wards

Contact Officer: Sophia Brown

Senior Audit Manager, Grant Thornton

Tel: 020 7728 3179

Email: Sophia.y.brown@uk.gt.com

14 Forward Plan and Agenda for the next meeting

175 - 176

To note the Committee's Forward Plan & Work Programme for 2021/22.

15 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: Monday 31 January 2022

Guidance on the delivery of safe meetings at The Drum, Brent Civic Centre

- We have revised the capacities and floor plans for event spaces to ensure they are Covid-19 compliant and meet the current social distancing guidelines.
- Attendees will need to maintain the necessary social distancing at all times.
- Signage and reminders, including floor markers for social distancing and one-way flow systems are present throughout The Drum and need to be followed.
- Please note the Civic Centre visitor lifts will have reduced capacity to help with social distancing.
- The use of face coverings is encouraged with hand sanitiser dispensers located at the main entrance to The Drum and within each meeting room.
- Those attending meetings are asked to scan the coronavirus NHS QR code for The Drum upon entry. Posters of the QR code are located in front of the main Drum entrance and outside each boardroom.
- Although not required, should anyone attending wish to do book a lateral flow test in advance these are also available at the Civic Centre and can be booked via the following link: <https://www.brent.gov.uk/your-community/coronavirus/covid-19-testing/if-you-dont-have-symptoms/>

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MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE
Held in the Conference Hall, Brent Civic Centre on Tuesday 22 September 2021 at 6.00 pm.

PRESENT: David Ewart (Chair), Councillor Lo (Vice-Chair) and Councillors Johnson, Long and Naheerathan.

Independent Advisor: Vineeta Manchanda

Independent Co-Opted Members: Mark Mills (in remote attendance)& Javed Ansari

Also Present (in remote attendance): Councillor Akram and Councillor McLennan (Deputy Leader & Lead Member for Resources)

1. Apologies for absence and clarification of alternate members

Apologies were received from Councillors Donnelly Jackson and Kansagra.

It was noted that whilst also present, Councillor Akram would not be able to formally participate in any decisions taken during the meeting given he was in remote attendance.

2. Declarations of Interest

David Ewart declared a personal interest in Agenda Item 11 (i4B Holdings & First Wave Housing Ltd performance and management review) as a previous work associate of Martin Smith (Chair of i4B Holdings and FWH Ltd Boards)

3. Deputations (if any)

None.

4. Minutes of the previous meeting

Subject to correction of the spelling of Councillor Naheerathan's name in the list of members present, it was **RESOLVED** that the minutes of the previous meeting held on 26 July 2021 be approved.

5. Matters arising (if any)

None.

6. Complaints and Code of Conduct

Debra Norman, Director of Legal, HR, Audit & Investigations, introduced a report which report provided an annual review of the complaints received pursuant to the Complaints Procedure and a review of the Members' Code of Conduct. In considering the report the Committee noted:

- The summary of complaints received in the last 12 months, as detailed in section 3.4 and Appendix A of the report.
- During this period the Monitoring Officer had received and made determinations regarding seven councillors allegedly in breach of the Members Code of Conduct. Of these six complaints were resolved at the initial stage, three were resolved at the Initial Assessment stage, two were partially upheld with none subject to review requests or escalated to hearing/formal investigation stage.
- The overview of the complaints procedure provided within section 3 of the report and consistency produced as a result of the detailed assessment criteria and involvement of the Deputy Monitoring Officer and Independent Persons in the decision making process.
- That no additional changes were being recommended as a result of the current review of the Member Code of Conduct Complaints Procedure.

The Committee was then invited to raise questions on the report, which are summarised below:

- A question was asked around the limited power that the Council had to take action against breaches in the code of conduct and whether these powers could be extended. In response, members were advised that there had been a consultation undertaken prior to the pandemic on this issue on which a response was now awaited from the Government.
- It was asked whether the assessment criteria included any consideration as to whether a complaint may be vexatious, with members advised this did form part of the initial assessment process.

As no further issues were raised it was **RESOLVED** to note the contents of the report.

7. **Standards Report (including update on Gifts and Hospitality and member training)**

Biancia Robinson, Senior Constitutional and Governance Lawyer, introduced a report updating 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. In considering the report the Committee noted:

- The summary of gifts and hospitality which had been registered by members during April – June 2021, as detailed within section 3.3 of the report.
- That as part of the External Audit progress report, Grant Thornton had made recommendations as part of their Value for Money review in relation to increasing the transparency and accessibility of gifts and hospitality, which were being addressed by officers.
- That with the exception of Data Protection/GDPR training all members had completed the required mandatory training courses. 13 members were still to complete their Data Protection/GDPR training although 8 had been registered as having started the training.

- The work ongoing to ensure the necessary adjustments were provided for those members with disabilities/ additional needs to support them in undertaking the mandatory online training courses on which the Committee would be updated further in due course.

The Committee was then invited to raise questions on the report, which are summarised below:

- A question was asked around the sanctions in place for those members who did not complete their mandatory training, especially as part of the next tranche needing to be completed following the 2022 local elections. Whilst noting that compliance would be a matter for the political groups to enforce it was noted that the payment of Special Responsibility Allowance for membership on certain bodies was already linked to completion of the necessary mandatory training courses.
- Details were sought on the reasons why those members registered as having started the Data Protection/GDPR training had not been able to complete it. In response, it was felt this may be related to time constraints with officers continuing to follow up in order to encourage completion. As a further suggestion it was agreed that the report also be sent to each Group for them to follow up with the necessary action.

As a result of the discussion at the meeting it was **RESOLVED** to note the contents of the report.

ORDER OF BUSINESS

At this stage in the meeting the Chair advised that he intended to vary to the order of the agenda so that items listed below were considered in the following order:

- Item 11 Review of Performance & Management of i4B Holdings Ltd & First Wave Housing Ltd along with the External Audit Findings
- Item 10 LB Brent Pension Fund 2020/21 Audit Findings Report
- Item 9 LB Brent 2020/21 Audit Findings Report
- Item 8 Statement of Accounts
- Item 14 Annual Auditors Report 2020/21
- Item 12 Internal Audit Progress Report

The minutes reflect the order in which the items were considered at the meeting.

8. To review performance and management of i4B Holdings Ltd and First Wave Housing Ltd

8.1 Report on i4B Holdings Ltd

Martin Smith, Chair i4B Holdings, introduced a report providing an update on i4B Holdings Ltd.'s (i4B, the Company) recent performance, accounts outturn, risk register and audit arrangements.

In presenting the report the Committee noted:

- i4B's performance remained sound with them continuing to provide good quality homes at affordable rents for people who may otherwise have been in temporary accommodation including the addition of a Key Worker block to the portfolio.
- The update provided in terms of operational performance, as detailed within section 6 of the report, with an ongoing issue identified in relation to void turnaround times. In addition, rent collection levels remained below target, although the impact of the pandemic was recognised as a contributing factor in this respect.
- The risk update and i4B Risk Register, as detailed within section 7 and Appendix 1 of the report. In terms of risk, it was noted that the risk profile for i4B was at the lowest level since the company had been established with the biggest risks currently relating to asset management systems and compliance, levels of contractor performance and high void rent loss due to extended turnaround times. The company risk register along with business plan assumptions, mitigations and actions were subject to regular review and update.
- i4Bs financial outturn for 2020/21 as detailed within section 5 of the report, which was in line with business plan expectations.

The Committee were then invited to ask questions, which are summarised below:

- It was clarified that the issue around void performance related to the service being provided through the Council rather than that provided through i4B. The cause related in part to difficulties being experienced in the nomination of clients to i4B properties as well as contractor performance in terms of the refurbishment and turnaround times. Given the concerns identified confirmation was provided that if i4B remained dissatisfied with performance they would have the option of not retaining the Council's contractor and seeking an alternative supplier to undertake the works.
- Further details were sought on the adjustments made within the restated 2019/20 balance sheet statement and value of total current assets listed given the potential impact on the company's cash flow. In response members were advised that the adjustment related to the revaluation of the investment property portfolio which was required to ensure the properties were being recorded in the balance sheet at the market value they could realistically be sold for. The previous valuation had overstated the value of the properties, although it was pointed out that the adjustment reflected an accounting issue agreed with the external auditors. In addition, the valuation of total assets had been impacted by the rapid increase in i4B's portfolio over recent years, meaning there would be differences in valuations as stock was purchased and brought into line with market prices at year end. The position had also been further impacted by completion of the purchase of the key worker housing block at a discounted market value.
- Further clarification was provided in relation to the value of total current assets, with members advised that given the objectives and social benefits being delivered through the company asset valuation would not be the principle measure of assessing the company's performance and financial performance. As the intention was not to sell the properties, the focus remained on cash flow in order to maintain the long term financial viability modelled around the assumptions within the Business Plan.

- Following on, members felt it would be useful in future reports for a copy of the company's cash flow statement to be provided, which was agreed by Martin Smith as Chair of the Board.
- A question on refurbishment performance was also raised with members noting this remained outside of the Business Plan target. In response members noted that the same contractor was used for the refurbishment programme as for voids and although performance was better on refurbishment than void turnaround, this was still an area requiring monitoring.

As no further issues were raised it was **RESOLVED** to note the report and update provided in relation to:

- (1) current operational and financial performance of i4B Holdings Ltd.
- (2) the i4B Holding Ltd Risk Register.
- (3) the i4B Holding Ltd accounts outturn for 2021/22.
- (4) the recent i4B audit in relation to the Service Level agreement with the Council and other third parties, as detailed within section 10 of the report.

8.2 Report on First Wave Housing Ltd

Martin Smith, Chair of First Wave Housing Ltd introduced a report providing an update on First Wave Housing Limited's (FWH) recent performance, accounts outturn, risk register and audit arrangements.

Prior to considering the wider operational performance of the company, Peter Gadsdon (Strategic Director Customer & Digital Services and Council appointed Director on FWH Ltd) provided members with a brief outline, overview and update on the current remediation works identified in relation to the eight Granville Homes FWH blocks in South Kilburn. The Committee noted:

- The background to the original construction of the blocks in 2009 which comprised a total of 110 out of the 326 properties managed by First Wave Housing Ltd. The properties had initially being purchased and managed through Brent Housing Partnership (BHP) and subsequently FWH Ltd's portfolio.
- Following transfer of the blocks a number of significant remediation works involving water penetration, cladding and windows had been identified relating to the original construction. More recently a number of fire safety concerns had also been identified, which had required the introduction of a walking watch service pending installation of a communal fire alarm system being completed.
- In an effort to address the issues identified, Ridge Consultants had been commissioned to carry out intrusive investigation works to assess the scope, costs and timescales of the necessary structural and remedial works required.

Martin Smith, Chair FWH Ltd, was then invited to comment and advised members of the determination within the Board, working with the Council as guarantor of the company, to address the issues and remedial works identified. The estimated cost

of the works identified, however, had been approx. £18.5m with the operational surpluses being generated by the company insufficient to cover the works identified, making the FWH Ltd Business Plan unviable. As a result the Council (as Guarantor) and FWH Ltd had been required to explore options for funding the works whilst protecting the ongoing viability of FWH Ltd, balancing costs with the HRA and ensuring the works were undertaken as quickly as possible and with minimum disruption for residents. The option recommended as a result had been to dispose of the blocks to the Housing Revenue Account (HRA) in order to enable the works to proceed. Further detail was now being considered on the structure of the proposed transaction taking account of the relevant implications for tenants, FWH Ltd, the General Fund and HRA. In terms of affected tenants, this would involve the social rented tenants becoming secure council tenants and leaseholder becoming a council leaseholder. The 25 intermediate tenants would become i4B tenants.

In terms of the next steps forward the proposed option was due to be presented to the Council's Cabinet in October 2021 for consideration and approval, with authority also being sought to undertake more detailed consultation with tenants on the potential disposal of the blocks

As further updates on the general operational and financial performance of the company the Committee noted:

- The ongoing concerns highlighted in relation to the performance on voids, with members advised of the performance plan now in place with Brent Housing Management to address this issue and improve turnaround times which the Board continued to closely monitor.
- The continuing strong performance in relation to rent collection, which remained above target and it was highlighted had been positively impacted by the support which had been made available during the pandemic through the Resident Support Fund established by the Council.
- The financial outturn for 2020-21 as detailed within section 5 of the report and potential impact of the costs for the Granville Homes remedial works which had resulted in the effected blocks having to be revalued (from an accounting perspective) from £12.457m down to nil within the accounts.
- The recent FWH audit in relation to the Service Level agreement with the Council and other third parties, as detailed within section 7 of the report.

The Committee were then invited to ask questions, which are summarised below:

- A question was asked regarding the submission of the company accounts with confirmation provided that final sign off and submission was on progress to be completed within the required deadline.
- The concerns identified by members regarding the extent of the works identified as required on the Granville blocks and impact on both the HRA given the recommended option identified and potential impact on tenants. Whilst the efforts being made by FWH Ltd to find a final solution in order to address the problems, working with the Council as guarantor, were recognised members felt it would also be helpful for more detailed scrutiny of the proposals to be undertaken through one of the Council's Scrutiny

- Committee's, particularly in view of the ongoing financial pressures and impact on the HRA, which officers agreed to take forward.
- Other issues highlighted in relation to the update on the Granville Blocks included the detailed arrangements for any stock transfer process and residents engagement along with the accounting of costs for the walking watch service. Confirmation was provided that the costs of the service and installation of the communal fire alarm would be spread over both 2020/21 and 2021/22.
 - Confirmation was provided regarding the ongoing financial viability of FWH Ltd should disposal of the Granville Home Blocks be taken forward as currently proposed.
 - Members were also keen to explore whether any other similar issues as experienced with the Granville Home Blocks were likely to be identified in relation to the remaining FWH Ltd property portfolio. In response, members were advised that no similar issues were expected to be identified, given the remaining type of properties within the portfolio. The Board were, however, monitoring and seeking to constantly develop their approach towards asset management in order to identify and address any further liabilities identified. In concluding on the Granville Home Blocks, the Chair assured members that in developing the option identified the Board had been seeking to ensure the works identified were undertaken as soon as possible, given the ongoing impact on tenants and in a way that sought to minimise the impact in terms of tenants, FWH Ltd, the General Fund and HRA.

As no further issues were raised the Chair thanked Martin Smith for attending the meeting in order to present both the i4B Holding Ltd and FWH Ltd reports and it was **RESOLVED** to note the report and update provided in relation to:

- (1) the current operational and financial performance of FWH Ltd.
- (2) the FWH Ltd Risk Register including the update provided in relation to the Granville Homes Blocks which it was AGREED should also be referred on to the Community & Wellbeing Scrutiny Committee for more detailed review of the option identified in terms of funding of the works and impact on the HRA.
- (3) the FWH Ltd financial outturn for 2021/22.
- (4) the recent FWH Ltd audit in relation to the Service Level agreement with the Council and other third parties.

8.3 i4B Holdings Ltd External Audit Findings Report

The Committee then moved on to consider the report from Grant Thornton (External Auditors) presenting the results of the audit undertaken in relation to the i4B financial statement and accounts for the year ended 31 March 2021. The Committee were advised that the reports presented were in draft pending completion of the final audit opinions. Joanne Love (Partner – Grant Thornton) presented the report and the Committee noted:

- Although to be finalised the audit work had been substantially completed and, subject to the outstanding matters being finalised as detailed in the report, the

- auditors had advised there were currently no matters of which they were aware that would require modification of their audit opinion.
- The observations provided in respect of the significant risks identified within the Audit Plan, with further detail provided in relation to the adjustment noted during consideration of the i4B performance report in the financial statements to correct the prior period error relating to the valuation of investment properties.
 - The outcome of the going concern assessment, which had noted the ongoing reliance within the detailed business plan on the Council's continued funding and support but had not impacted on the overall audit judgement.
 - The assessment of the internal controls and audit recommendations made in response.

The Committee were then invited to ask questions on the report, which are summarised below:

- A question was raised around FRS 102 and the accounting classification of the Quintain Key Worker Housing block. In response, members were advised that the assessment reached had been that the block should be accounted for as property, plant and equipment (PPE) for the provision of social benefit rather than as an investment property with the Committee aware of the complex nature of the accounting and audit judgements needing to be made given the objectives and role of the company.
- An assurance was sought regarding the mitigations in place to ensure the accounting error identified in relation to the valuation of investment properties did not occur again. Whilst recognising the concerns raised, members were advised of the technical nature of the error, how it had been identified and measures being taken to avoid anything similar in future.

As no further issues were raised it was **RESOLVED** to note the i4B Holdings Ltd Audit Findings report.

8.4 **FWH Ltd External Audit Findings Report**

Joanne Love then moved to present the report from Grant Thornton (External Auditors) detailing the results of the audit undertaken in relation to the FWH Ltd financial statement and accounts for the year ended 31 March 2021.

In considering the report, the Committee noted:

- Although to be finalised the audit work had been substantially completed and, subject to the outstanding matters being finalised as detailed in the report, the auditors had advised there were currently no matters of which they were aware that would require modification of their audit opinion.
- The observations provided in respect of the significant risks identified within the Audit Plan. The audit had included reference to the works and refurbishment costs identified in relation to the Granville Home Blocks in terms of the accounting requirement for valuation of social housing properties and investment properties and obligations on the company under FRS 102 and the Housing SORP.

- The assessment of the internal controls and audit recommendations made in response.
- The outcome of the going concern assessment, which had noted the ongoing reliance within the detailed business plan on the Council's continued funding and support and need to address how the remedial works on the Granville Home Blocks would be funded.

The Committee were then invited to ask questions on the report, which are summarised below:

- Further details were sought on the potential impact of the proposed transfer of the Granville Homes Block on the HRA and future operation of FWH. Members were assured that a detailed evaluation of the available options had been considered resulting in the recommended way forward in terms of transfer of the Blocks to the HRA. The paper due to be presented to Cabinet in October 2021 would set out in detail the various options considered along with the financial projections and associated risks, with the recommended transfer option having been assessed as the most beneficial to both the company and Council. It was agreed that the Committee would be kept updated on progress once a final decision had been taken by Cabinet on the way forward.
- Clarification was sought on the likely impact of any final decision made by Cabinet in relation to the transfer of the Granville Home Blocks on the treatment of the 2021 FWH accounts. Given the imminent sign off of the accounts and timing of the Cabinet decision members were advised that this was unlikely to impact on sign off of the final statement of accounts and once any final decision had been made this would be effectively treated as a non-adjusting post balance sheet event.

As no further issues were raised the Chair thanked all those involved in preparing and presenting the reports for their effort and it was **RESOLVED** to note the FWH Ltd Audit Findings Report.

9. **LB Brent Pension Fund 2020/21 Audit Findings Report**

Waqas Hussain (External Auditor- Grant Thornton) introduced a report, which updated the Committee on the Pension Fund audit findings for the year ended 31 March 2021. In considering the report, the Committee noted:

- That the audit work was now substantially complete and subject to the final outstanding queries being resolved the External Auditors anticipated being able to issue an unqualified audit opinion.
- There had not been any adjustments identified in relation to the financial statements that had resulted in an adjustment to the Pension Fund's reported financial position.
- The risks identified within the Audit Plan, in relation to management override controls, valuation of Level Three investments and recognition in contributions. Having been evaluated however, the audit work had not identified any issues in respect of the risks identified
- The key estimates and judgements considered as part of the enhanced audit requirements.

The Committee was then invited to raise questions on the report, which are summarised below:

- A question was asked on the assurance around the methodology used to undertake the valuation of Level 3 investments. In response it was confirmed that the assessment had included a detailed review and evaluation of the valuation process including a review of valuation statements and audited financial statements from the Fund Investment managers and the effectiveness of their internal controls. As a result no issues had been identified in respect of the valuation of Level 3 investments, which the External Auditors felt had been fairly stated.

As no further issues were raised it was **RESOLVED** to note the contents key issues and findings contained within the Audit Findings report.

10. **LB Brent 2020/21 Audit Findings Report**

Sophia Brown (Senior Manager, Grant Thornton) introduced the report, outlining the key issues and findings in relation to the statutory audit of Council's Statement of Accounts for the year ended 31 March 2021.

In considering the report the Committee noted:

- That the audit work had substantially been completed and currently there were no matters of which the auditors were aware that would require modification of their unqualified audit opinion (as detailed within Appendix E of the report) or material changes to the financial statements, subject to the outstanding matters identified within the report.
- The final quality review process was in the process of being completed, with the Value for Money work already finalised. As a result the External Auditor had been able to confirm they were satisfied the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources at this stage.
- The work of Brent Council's finance team in support of the audit during such a challenging period relating to the pandemic was acknowledged, with a particular mention to Sin-Yee Tang. The external auditors had advised they had not encountered any significant difficulties in the audit process.
- It was noted that the levels of materiality had remained the same as reported in the audit plan. Work on journals had also been completed, with no issues to report.
- The review undertaken as part of the audit in relation to the following areas of significant risks identified within the Audit Plan:
 - Fraud in expenditure recognition – with no issues identified in respect of the risk identified;
 - Valuation of land and buildings – whilst further work was being undertaken to review the impact of the useful economic lives (UELs) valuation on in year depreciation charged and accumulated buildings depreciation, this was not expected to have any significant impact;
 - Valuation of pension fund net liability – with no issues identified in respect of the risk identified;

- The key estimates and judgements considered as part of the enhanced audit requirements, with specific attention drawn to the following areas:
 - In relation to the valuation of land and buildings - the revised requirements under ISA540 had required enhanced disclosure of accounting estimates with the need identified for more work to improve the quality of the disclosures around estimation, uncertainty of land and building valuations along with consideration of alternative estimates that were available;
 - In relation to the Minimum Revenue Provision (MRP) - whilst the External Auditors had been satisfied that the Council had approved its MRP through appropriate governance structures and had sufficient reserves to cover the impact of any change in approach introduced following a recent Government consultation, the need was identified for the Council to ensure that the MRP continued to be adequate within the context of increased borrowing. Discussions were ongoing to conclude on the reasonableness of the decrease in the MRP charge for 2020/21. The Committee were also advised of an adjustment needing to be made to Brent's rating in terms of the MRP analysis of London Boroughs, which had come about as draft figures had been used up to this point, and would therefore be corrected in the final report to show as orange rather than red.
- The assessments provided in relation to the Council's Internal Control mechanisms and accompanying recommendations and Action Plan detailed in response to the issues identified during the course of the audit. These included:
 - Bank reconciliation;
 - Grants Register;
 - Payroll creditors reconciliation;
 - Security Management;
- The matters which had been identified as significant for discussion with management during the course of the audit, which had been focussed around future funding arrangements and the Dedicated Schools Grant.
- The communication requirements identified during the audit process on which confirmation was provided all responses had now been received.

The Committee was then invited to raise questions on the report, which are summarised below:

- Members were keen to ensure that a final version of the Audit Report was provided for all members of the Advisory Committee, once available.

As no further issues were raised the Chair thanked officers for the report and efforts in responding to the actions and issues identified and it was **RESOLVED** to note the contents, key issues and findings contained within the Audit Findings report with a final version to be circulated once the necessary final adjustments and discussions had been concluded

11. Statement of Accounts

Sin-Yee Tang (Senior Finance Analyst) introduced a report detailing progress in approving the Council's Statement of Accounts for 2020/21 and providing a draft

Letter of Representation for consideration in advance of final sign off and Grant Thornton being able to issue a final audit opinion.

In considering the report the Committee noted:

- Its role in considering any issues raised by the External Auditors as part of the process for approving the Council's annual statement of accounts, with the basis for this being the "report to those charged with governance" also referred to as the ISA260 report. The Council's external auditors, Grant Thornton, produced the report following completion of the audit of accounts with the report intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. It also provided the findings from the value for money conclusion for the year.
- That following consideration of the final audit findings report, Grant Thornton had indicated they intended to give an unqualified opinion on the Council and Pension Fund accounts and a clear value for money conclusion.
- That due to final changes needing to be made to the i4B and First Wave Housing Accounts, it had not been possible to present the final accounts at the meeting and it had therefore been recommended that subject to the agreed adjustments being made, approval of the final Statement of Accounts be delegated to the Chair of the Audit & Standards Committee.

The Committee was then invited to raise questions on the report, which are summarised below:

- Having noted the anticipated results of the audit and final adjustments being made it was agreed, in response to a suggestion made by the Chair, that a final written assurance be provided for the Chair of the Audit & Standards Committee that all outstanding matters had been addressed and complied with prior to final sign off of the accounts.
- A question was asked around cybersecurity issues and steps taken to mitigate against this risk. In response, the Committee were advised of the measures which had been introduced to address this risk including the significant investment recently agreed as part of the Council's IT Investment Strategy. Details were also provided on a cybersecurity workshop hosted by PWC on which progress was subject to current review, with the Council's Internal Audit Team and Grant Thornton also involved in reviewing implementation of the Council's new Oracle Cloud system. As a result of the issues raised it was agreed that a report would be provided for a future meeting on the actions being taken around cyber security.

With no further issue raised the Committee took the opportunity to thank all officers involved in the preparation of the accounts during such a challenging period with the pandemic. It was noted that despite these additional pressures, Brent had been one of the first Local Authorities to have completed their statement of accounts and be in the position for the External Auditors to now be completing their closing procedures enabling final sign off, well in advance of the statutory deadline on 30 November 21.

The Chair thanked officers for the report and information provided at the meeting and it was **RESOLVED**

- (1) To note the key issues and recommendations within the report.
- (2) To note the corrected audit differences.
- (3) To approve the draft Letter of Representation to Grant Thornton and recommend to Audit & Standards Committee that final approval and sign off of the Statement of Accounts and Letter of Representation be delegated to the Chair of the Audit & Standards Committee, subject to a written assurance being provided that all outstanding matters and adjustments had been addressed and made.

12. **Annual Auditors Report 2020/21**

Sophie Lewis (Grant Thornton – External Auditor) introduced a report which updated the Committee on the annual review undertaken of the Council's Value for Money arrangements.

In considering the report the Committee noted:

- Under the National Audit Office (NAO) Code of Audit Practice ('the Code') the External Auditors were now required to consider whether the authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor was no longer required to provide a qualified/unqualified VFM conclusion and instead was required to report on the Authority's overall arrangements as well as key recommendations on any significant weaknesses in arrangements which had been identified.
- The specific criteria under the new arrangements on which the Auditors were expected to focus their assessment namely Financial Sustainability, Governance and improving Economy, Efficiency and Effectiveness.
- The three categories of recommendations which could be raised by the Auditors as an outcome of the review process, as detailed within Appendix B of the report. These included statutory recommendations (of which none were identified within the report); Key recommendations where significant weaknesses had been identified (of which none had been identified) and lastly improvements which were designed to improve the arrangements already in place and not as a result of any significant weaknesses being identified. Whilst a number of improvement recommendations had been identified, no statutory or key recommendations had been raised through the audit with members noting the commentary provided in relation to the arrangements for securing economy, efficiency and effectiveness in the use of the Council's resources in relation to each of the three main criteria.
- The improvement recommendations identified were intended to provide constructive criticism and advice and it was noted that productive and positive engagement with officers regarding the recommendations had taken place.

The following issues were raised in relation to the update provided and responses provided for review by the Committee:

- Members welcomed the feedback from officers regarding the positive and constructive nature of the process and engagement with the Auditors with it recognised that Brent had been one of the first Authority's nationally to have reached this stage under the new arrangements.
- Members support to ensure that any best practice and benchmarking (especially involving social value considerations) identified as a result of the process and recommendations being made in relation to other Local Authorities as they completed the process was shared across the sector.
- Further details were sought on the improvement recommendation raised in relation to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and on the website. In response, members were advised the recommendation was about ensuring transparency in terms of distinguishing between where the Council had discretion over the use of resources and where there was a statutory requirement to do so.
- Members welcomed the report, with it noted that the improvement recommendations identified (as they related to the remit of the Committee) would be included for ongoing monitoring and review as part of the Internal Audit and Committee work programme.

As no further issues were raised the Chair thanked officers and the External Auditors for their efforts and it was **RESOLVED** to note the contents of the Auditor's Annual Report, which subject to being finalised would also need to be referred to Full Council for review and approval.

13. **Internal Audit Progress Report**

Debra Norman, Head of Audit, Legal and Investigations, introduced a report, which provided an update on progress against the Internal Audit Plan for the period 1 April 2021 to September 2021.

Before considering the report the Committee were introduced to Darren Armstrong as the new Head of Audit and Investigations, who was due to formally join the Council on 25 October 21.

In considering the report the Committee noted:

- The internal audit performance, as detailed within section 3 of the report. During the monitoring period it was reported that 13 audits had been completed, with a further three draft reports issued which were awaiting a management response.
- Details of the completed audits and key findings as set out within Appendix A of the report.
- Details of the audits currently in progress as set out within Appendix B of the report.
- Details of the completed follow up audit reviews which had been undertaken as set out in Appendix C of the report. Of the four completed during the current period, two had included high-risk actions on which further follow up work had been identified.
- The ongoing advisory work being undertaken by Internal Audit in relation to the migration of the existing finance, procurement and HR/payroll system to a

single Oracle Cloud solution in order to provide assurance around the controls and governance of the programme.

The Committee was then invited to raise questions on the report, which are summarised below:

- A question was asked in relation to Government Covid grant payments and whether if returned or claimed back the funding would need to be returned to the Treasury. In response, it was confirmed that any funding claimed back or returned would need to be paid back once the cost of any associated recovery action had been claimed by the Council.
- Further details were sought on the programme of school audits, with members advised of the revised approach which had been adopted due to the pandemic and had resulted in minor delays to the timescales for the audit process, as detailed in section 3.13 of the report.
- Further details were sought on the progress being made with implementation of the high risk actions identified as part of the IT Platform Review related to the approval of the necessary investment proposals by partner organisations. The Committee agreed that a further update should be provided on those high risk actions recorded as either partially or not implemented, with it noted that the investment proposals formed part of the approach needing to be adopted across the IT Shared Service which Brent formed part of with Lewisham and Southwark Councils.

As no further issues were raised it was **RESOLVED** to note the content of the report and thanks were offered to the Internal Audit team for their ongoing efforts in delivering the programme during such challenging circumstances during the pandemic.

14. **Counter Fraud 2021/22 Progress Report**

Debra Norman, Head of Legal, HR, Audit & Investigations, introduced a report providing a summary of the counter fraud activity for 2021/22 Q1 and Q2, up to 31 August 2021.

In considering the report the Committee noted:

- The level of internal fraud referrals as detailed within Table A of the report, which included 14 new cases.
- The level of counter fraud activity undertaken in relation to Tenancy and Social Housing Fraud for 2021/22, as detailed within Table B of the report.
- The level of external fraud activity for 2021/22 as detailed within Table C of the report, with a decrease in referrals being reported that was consistent with pre-lockdown arrangements.
- The level of proactive counter fraud activity undertaken during 2021/22 as detailed within Table D of the report. This had included activity in relation to Covid discretionary business grant payments.
- The level of notional and actual savings identified as a result of counter fraud activity and investigations, as detailed within Table E of the report.
- In terms of other counter fraud related activity, it was reported that four new identify scanners had been installed at the Civic Centre located within the

recruitment, registrar and customer services teams. In addition members were advised that two new staff would shortly join the team as Counter Fraud officers funded by a Government anti-housing fraud grant as part of a new Counter Fraud apprenticeship scheme.

As no further issues were raised the Chair thanked staff within the counter fraud team for their ongoing efforts with members welcoming the proactive nature of the work being undertaken and it was **RESOLVED** to note the contents of the report.

15. **External Audit Progress Report**

The Chair advised that this report had been withdrawn from the agenda in advance of the meeting.

16. **Forward Plan and Work Programme**


It was **RESOLVED** to note the Committee's latest Forward Plan and date of the next meeting as Tuesday 07 December 2021.

17 **Any other urgent Business**

None.

The meeting closed at 8.10 pm

David Ewart
Chair

	Audit and Standards Advisory Committee 7 December 2021
	Report from: Director of Legal, HR, Audit & Investigations
Standards Report (including quarterly update on Gifts & Hospitality, and mandatory training)	

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	None
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	(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 Recommendation

- 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 During the third quarter (August - October 2021) the gifts and hospitality received has been recorded as set out in table one below.

Table 1

Councillor	Date	Gift/Hospitality	Value	From
Councillor Long	02/10/2021	300g box of Ferrero Rocher chocolates	estimated cost £6.00-£10.00	gift given by a constituent at councillors surgery

Member Training Attendance

- 3.4 All Members have undertaken and completed the mandatory training with exception of Data Protection/GDPR training.
- 3.5 The Committee should note that Data Protection/GDPR training and its consequential reporting was not available for a period of 2-3 weeks during October 2021, which may have impacted on the number of Member's yet to complete the training.
- 3.6 The following members are yet to complete the e-learning Data Protection/GDPR course. The Committee will recall that previously members who had started the training but not yet completed were denoted with an asterix. The Information Governance team have advised that due to the lapse of time the training for those members will need to be undertaken in full.

Data Protection for elected members

Cllr. Rita Conneely
Cllr. Fleur Jackson
Cllr. Harbi Farah
Cllr. Erica Gbajumo
Cllr. Gwen Grahl
Cllr. Robert Johnson
Cllr. Daniel Kennelly
Cllr. Arshad Mahmood
Cllr. Roxanne Mashari

Cllr. Lloyd McLeish
Cllr. Kana Naheerathan
Cllr. Neil Nerva
Cllr. Keith Perrin
Cllr. Eleanor Southwood

- 3.7 The Committee are asked to note that following feed-back regarding the incorporation of accessible formats for the online training, Information Governance officers have met with the vendor, Learning Nexus to discuss options for moving to a new course builder platform. Officers are also currently in discussions with the current provider Learning Pool (currently used by the Council's Learning and Development team) to discuss their offering of accessible formats.
- 3.8 The next period in which Members will have to undertake the mandatory training including the usual committee training, is after the 2022 local elections.

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

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 Brent	Audit and Standards Advisory Committee 7 December 2021
	Report from the Director of Legal HR Audit and Investigations
Review of Role and operation of the Constitution Working Group	

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One Appendix 1 CWG Terms of Reference
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Debra Norman, Director of Legal, HR, Audit & Investigations Tel: 020 8937 1578 Debra.Norman@brent.gov.uk

1. Purpose of Report

- 1.1. In response to a recommendation from the Resources and Public Realm Scrutiny Committee, this report provides a review of the current role and operation of the Constitutional Working Group (CWG). It provides some information about practices elsewhere, highlights steps taken already in response to the Scrutiny Committee recommendation and proposes that a further review be undertaken following the Local Elections in May 2022.

2. Recommendations

- 2.1. To note the contents of this report and agree to receive a further report following the Local Elections in May 2022.

3. Detail

- 3.1 At its meeting on 14 September 2021, the Resources and Public Realm Scrutiny Committee agreed the following recommendation:

To increase democratic overview and transparency within the Constitutional

Working Group, ensuring member involvement in decision-making.

- 3.2 The CWG is not a committee of the council, it is an officer/member working group chaired by the Chief Executive and it therefore meets in private, with the papers presented to the group and discussed without being published. It has been in existence since before 2015. Its primary purpose is to seek cross party agreement to potential changes to the Constitution before they are formally taken forward for decision by Full Council. Its meetings take place in the period leading up to Full Council meetings if it is anticipated that changes will be recommended at the forthcoming meeting. The CWG does not take any decisions about the Constitution itself.
- 3.3 The terms of reference of the CWG are attached as Appendix 1. The CWG does also on occasion discuss matters not directly to do with the Constitution but which relate to items going to Full Council, such as the annual calendar of meetings and allocation of committee membership in line with political balance rules.
- 3.4 It should also be noted that the CWG includes in its discussions changes which relate to the exercise of executive powers. These are matters for the Leader not Full Council to decide and are referred to Full Council for noting or as technical changes to the Constitution rather than to be agreed in substance by Full Council.
- 3.5 Democratic overview and transparency are currently provided through the referring of any significant changes to the Constitution supported by the CWG to Full Council for discussion and approval. At those Full Council meetings, papers and discussion are public and all council members are able to contribute and challenge if they so wish.
- 3.6 Should it be considered appropriate in respect of any proposed changes, if for example proposed changes to the terms of reference of a committee were considered particularly contentious, those changes could be referred to the Audit and Standards Advisory Committee (ASAC) for a detailed discussion before recommendation to Full Council. The Constitution provides power for the ASAC monitor and review the operation of the Constitution and to make recommendations for change.
- 3.7 Democratic accountability is also provided through the involvement of cross party membership in the CWG. Political members of CWG determine the extent of discussion in their party groups about matters due to be considered at the CWG.
- 3.8 As part of this review details have been sought from a number of other London Boroughs on the arrangements they have in place for considering constitutional matters. Whilst only a limited number of responses were received, a range of practices were identified, which include:
 - Use of a Member Working Group to consider any constitutional changes prior to their referral onto Full Council for approval.
 - Establishment of a formal Committee to consider any constitutional matters in advance of their referral onto Full Council.

- Use of the General Purpose Committee to consider and agree constitutional changes or (if felt to be significant enough) to refer them on to Full Council for consideration and approval.
- Reference of issues direct to Full Council (having been identified by Leader of Council or other bodies such as Audit Committee).
- Delegation of power to the Monitoring Officer to deal with minor changes to the Constitution with any more significant issues referred direct to Full Council.

3.9 Although only a small sample, as can be seen from the above there are a variety of arrangements in place for undertaking initial consideration of constitutional matters among other London Boroughs. In addition to the CWG Brent does have in place some elements of these other mechanisms. As mentioned already, the ASAC is able to receive reports in relation to Constitution changes. In addition, the Constitution provides for minor changes to be made by the Monitoring Officer:

“The Constitution may be varied by the Director of Legal, HR, Audit & Investigations if in his or her reasonable opinion a variation is a minor variation (which includes legal, factual, administrative and other technical changes) or is required to be made to remove any other inconsistency or ambiguity or is required to be made so as to comply with any statutory provision.”

3.10 Were a decision made that proposals to change the Constitution should be considered by a committee before recommendation to Council, there would still be the need for an informal discussion mechanism as part of preparing proposals. In addition, the flexibility of the informal approach prior to council would be lost and some sort of urgency arrangement would need to be in place where changes need to be made quickly, for example due to legislative change.

3.11 The effectiveness of the current arrangements were discussed at the CWG meeting on 3 November 2021 as part of this review. The CWG considered the current operation of the group and the alternative practices elsewhere. The view of the CWG was that the arrangements currently work well, although it was thought that inviting other members to meetings where particularly relevant would be an improvement, for example, the Chair of Planning if there was a discussion about Planning Committee terms of reference. Aside from that improvement, the CWG considered it would be more appropriate to undertake a further review following the election. This would enable the new administration can make a decision as to the future mechanism for discussing constitutional changes, including whether there should be more use of the existing role of the ASAC or another committee instead of, or in addition to, the CWG.

3.12 In addition to the review of the CWG, members may be interested to know that since the recommendation from the Scrutiny Committee the following steps have been taken or are underway:

- a. A recent Members Bulletin reminded all Members of the existence and role of the CWG and invited them to put forward to their group whip or the Monitoring Officer their thoughts as to potential improvements to the Constitution that could be considered by the CWG.

- b. In response to a related recommendation from the Scrutiny Committee a record of all changes to the Constitution since a fundamental review which began in 2017 is being compiled to be published alongside the Constitution.

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

The existing members of the Constitutional Working Group were consulted concerning this review as set out in the body of the report.

Report sign off:

Debra Norman, Director of Legal HR Audit and Investigations

Appendix

TERMS OF REFERENCE

Scope

To monitor, review and advise the Council on the efficiency of the Council's Constitution.

Make recommendations to the Council on ways that the Constitution or any procedures or protocols relating to it could be amended in order to achieve the Constitution's purpose.

Authority

No statutory decision-making authority

Membership

Chief Executive (Chair) Monitoring Officer
Head of Executive and Member Services

The Leader and Deputy Leader of the Council
The Leader of the Conservative Group
One majority group member.

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Appendix 1

TERMS OF REFERENCE

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No statutory decision-making authority

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Chief Executive (Chair) Monitoring Officer
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The Leader and Deputy Leader of the Council
The Leader of the Conservative Group
One majority group member.

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	<p>(1) Audit and Standards Advisory Committee</p> <p>(2) Audit and Standards Committee</p> <p>7 December 2021</p>
	<p>Report from the Director of Legal, HR, Audit & Investigations</p>
<p>Update on Financial and Procedural Rules Governing the Mayor's Charity Appeal</p>	

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One: A: Financial and Procedural Rules Governing the Mayor's Charity Appeal
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	(1) Debra Norman, Director of Legal, HR, Audit & Investigations (ext. 1578) (2) Bianca 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 a recent review of the financial and procedural rules for governing the Mayor's Charity Appeal.

2.0 Recommendations

- 2.1 That the Audit and Standards Advisory Committee, note the contents of the report and the financial and procedural management of the Mayor's Charity Appeal as set out in Appendix One of this report.

- 2.2 That the Audit and Standards Committee consider the contents of the report and approve the proposed changes to the Financial and Procedural Rules governing the Mayor's Charity Appeal.

3.0 Detail

- 3.1 The Mayor in their capacity as First Citizen is expected to:
- a) act as the representative of the area;
 - b) participate in and help initiate activities that enhance the economic, social, cultural and environmental well-being of the borough; and
 - c) act as an advocate of the local community.

It is in this capacity, that each new Mayor chooses one or more charities which they intend to support through donations/fund raising events during the Mayoral year.

- 3.2 The Financial and Procedural Rules (the Rules) governing the Mayor's Charity Appeal were last put before the Standards Committee in March 2019. At that time the Rules were updated to ensure transparency and reflect financial regulations.
- 3.3 To ensure the Rules remain transparent and accurate, a periodic review is undertaken. Following this review, it is proposed to make a few minor modifications reflecting the organisational changes of officers involved in the day to day management and approval process of the Mayor's Charity Appeal. Attached to this report is Appendix A are the Financial and Procedural Rules Governing the Mayor's Charity Appeal with proposed changes marked in red.
- 3.4. Changes to the Financial and Procedural Rules Governing the Mayor's Charity Appeal requires formal approval of the Audit and Standards Committee and this committee is asked to recommend the changes in Appendix 1 to that committee.

4.0 Financial Implications

- 4.1 There are no financial implications arising out of this report. The funds collected by the Mayor's Office on behalf of the charities are governed by trustee and charity law.

5.0 Legal Implications

- 5.1 The civic role of the Mayor is governed by s3 the Local Government Act 1972. However, when the Mayor nominates and then supports one or more charities by raising proceeds which are then donated to a charity, or charities, of their choice, the Council is exercising its wellbeing powers pursuant to s2 Local Government Act 2000.

6.0 Equality Implications

- 6.1 The Council must, in the exercise of its functions, have due regard to the need to:
- (a) eliminate discrimination, harassment and victimisation;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it, s149 Equality Act 2010.
- 6.2 The s149 Public Sector Equality Duty (outlined above) in the Equality Act 2010 covers the following nine protected characteristics: age, disability, marriage and civil partnership¹, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 6.3 “Due regard” is the regard that is appropriate in all the circumstances. The weight to be attached to the effect is a matter for the council. As long as the council is properly aware of the effects and has taken them into account, the duty is discharged.
- 6.4 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

¹ 6.1(b) &(c) above does not apply to this protected characteristic..

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Financial Rules Governing the Mayor's Charity Appeal

1. Role of Mayor's Office

General

- 1.1 The Mayor's Office will assist the Mayor in choosing the Charities for the year, should the incoming Mayor need guidance. Due care should be taken to ensure that the chosen charities are reputable and will benefit significantly from monies raised.
- 1.2 The Mayor's Office will ensure that the Mayor's Charity Appeal is registered under, and complies with, the Lotteries and Amusements Act 1976 (this relates to the selling of raffle tickets).

Day to day management

- 1.3 A receipt book will be maintained to record all receipts and donations.
- 1.4 All donations received will be receipted, acknowledged by a different person from the person who collected the donation, and passed to Finance to be banked.
- 1.5 The Civic & Member Services Executive Support Manager will be responsible for authorising expenditure from the Charity Appeal account.
- 1.6 Where raffle tickets are sold, a record will be kept of how many tickets have been issued and this will be cross referenced with the amount of money collected.
- 1.7 The Civic & Member Services Executive Support Manager will ensure all steps required to comply with Lotteries and Amusements Act are undertaken.

2. Role of Finance

General

- 2.1 A new charity appeal bank account will be opened at the beginning of each Mayoral Year. All transactions will be finalised within 3 months of the end of the Mayoral Year and the account will be closed no later than 6 months after the end of the Mayoral year.

Day to day management

- 2.2 Bank reconciliations will be carried out monthly and all discrepancies resolved monthly.
- 2.3 All donations passed on by the Mayor's Office will be banked and a receipt issued to the Mayor's Office for cash donations.
- 2.4 Invoices will only be paid if signed off by the Mayor's Office and Civic & Member Services Executive Support Manager or the Director of Performance, Policy and Partnership. Assistant Chief Executive

Finance will check the signature and invoice for accuracy and records will be kept on file.

- 2.5 Cheques can only be signed by an authorised signatory within Finance

3. General

- 3.1 All payments from the Charity Account should be by cheque. Where payments not exceeding £20 each need to be made in cash for expediency, then a receipt shall be obtained from the person who receives the cash, with details as to why the cash was paid.
- 3.2 The Council cannot pay advances into the Charity Appeal account in lieu of expected funds to be raised or underwrite any losses. Therefore, the Mayor's Charity Appeal account should not be overdrawn at any time.
- 3.3 Should the Mayor wish to invite interested persons to form a fundraising group to assist with the appeal, this group will play no active role in the finances of the Charity Appeal.

4. Public Accountability

- 4.1 On closing the account, monies will only be paid to a charity registered with the Charity Commission for England and Wales.
- 4.2 If the Mayor wishes to divide the funds other than equally between the chosen charities he/she must make this clear at the beginning of the Mayoral year so that donors are aware of where their contributions are going.
- 4.3 Donors should where practical be given the choice of donating to only one of the charities that the Mayor has chosen, rather than the donation

being split. A separate record will be kept by the Mayor's Office of donations falling into this category.

- 4.4 A clear statement giving details of all donations received and all expenditure incurred should be available for any member of the Council or for any member of the public to inspect by appointment.

Financial and Procedural Rules Governing the Mayor's Charity Appeal

1 The Mayor's Selection of Charities to support

- 1.1 The Mayor shall name not more than two charities which he or she wishes to support for his or her term of office as Mayor. For the avoidance of doubt, funds collected are in the name of the office of the Mayor of the London Borough of Brent and not in an individual capacity.
- 1.2 The incoming Mayor shall inform the Mayor's Office of the names of the charities which he or she wishes to support no later than four weeks before the Annual General Meeting or two weeks in exceptional circumstances.
- 1.3 The charities chosen by the incoming Mayor must be registered with the Charity Commission for England and Wales at the date they are selected.
- 1.4 The charities chosen by the incoming Mayor must be UK based and operate within Brent for the benefit the inhabitants of Brent.
- 1.5 Prior to announcement of the incoming Mayor's nominated charities at the Annual General Meeting, officers of the council shall confirm that the charities meet appropriate standards for governance, are financially viable, are likely to endure for the duration of the Mayoral year and have not been the subject of Charity Commission concerns within the last two years at the date officers make enquiries. If the requirements set out in this paragraph are complied with, a record shall be made accordingly. In the event that there are reasonable concerns expressed by officers, the Mayor shall be asked to make an alternative choice of charity to support.
- 1.6 If the incoming Mayor is a newly elected Councillor, he or shall inform the Mayor's Office of the charity (ies) he or she wishes to support within two weeks of taking office.

2 Collection and Donation of Funds

- 2.1 It shall be assumed that the funds collected during the Mayor's term of office shall be divided equally between the chosen charities unless otherwise

specified by the Mayor in writing at the outset of his/her term of office, or unless a donor specifies that their donation is for one specific charity.

- 2 Where more than one charity is named, donors should where practical be given the choice of donating to only one of the charities that the Mayor has chosen, rather than the donation being split. A separate record will be kept by Executive and Member Services of donations falling into this category.
- 2.3 The funds collected shall be used for the general purposes of the charity named and there shall be no collections for specific projects.
- 2.4 Where one or more of the Mayor's chosen charities is no longer deemed to be fit or able to receive the funds collected as determined by the Chief Finance Officer, or ceases for whatever reason to operate or be registered the relevant proportion of the funds shall (following consultation with the Mayor) be added to the funds to be donated to the remaining of the Mayor's chosen charities (if any) or a registered charity which has the closest aims and functions to those originally named.

3. Role of Mayor's Office

General

- 3.1 The Mayor's Office will assist the Mayor in choosing the Charities for the year, should the incoming Mayor need guidance. Due care should be taken to ensure that the chosen charities are reputable and will benefit significantly from monies raised.
- 3.2 The Mayor's Office will ensure that the Mayor's Charity Appeal is registered under, The Gambling Act 2005 (this relates to the selling of raffle tickets).

Day to day management

- 3.3 A receipt book will be maintained to record all receipts and donations.
- 3.4 All donations received will be receipted, acknowledged by a different person from the person who collected the donation, and passed to Finance to be banked.
- 3.5 The Civic & Member Services ~~Executive Support~~ Manager will be responsible for authorising expenditure from the Charity Appeal account.
- 3.6 Where raffle tickets are sold, a record will be kept of how many tickets have been issued and this will be cross referenced with the amount of money collected.
- 3.7 The Civic & Member Services ~~Executive Support~~ Manager will ensure all steps required to comply with The Gambling Act 2005 are undertaken.

4. Role of Finance

General

- 4.1 A new charity appeal bank account will be opened at the beginning of each Mayoral Year. All transactions will be finalised within 3 months of the end of the Mayoral Year and the account will be closed no later

than 6 months after the end of the Mayoral year by the payment of monies to the nominated charity(ies).

Day to day management

- 4.2 Bank reconciliations will be carried out monthly and all discrepancies resolved monthly.
- 4.3 All donations passed on by the Mayor's Office will be banked and a receipt issued to the Mayor's Office for cash donations.
- 4.4 Invoices will only be paid if signed off by the Mayor's Office and Civic & Member Services~~Executive Support~~ Manager or ~~the Director of Performance, Policy and Partnership.~~ Assistant Chief Executive

Finance will check the signature and invoice for accuracy and records will be kept on file.


- 4.5 Cheques can only be signed by an authorised signatory within Finance

5. General

- 5.1 All payments from the Charity Account should be by electronic funds transfer.
- 5.2 The Council cannot pay advances into the Charity Appeal account in lieu of expected funds to be raised or underwrite any losses. Therefore, the Mayor's Charity Appeal account should not be overdrawn at any time.
- 5.3 Should the Mayor wish to invite interested persons to form a fundraising group to assist with the appeal, this group will play no active role in the finances of the Charity Appeal.

6. Public Accountability

- 6.1 On closing the account, monies will only be paid to a charity registered with the Charity Commission for England and Wales.
- 6.2 If the Mayor wishes to divide the funds other than equally between the chosen charities he/she must make this clear at the beginning of the Mayoral year so that donors are aware of where their contributions are going.
- 6.3 Donors should where practical be given the choice of donating to only one of the charities that the Mayor has chosen, rather than the donation being split. A separate record will be kept by the Mayor's Office of donations falling into this category.
- 6.4 A clear statement giving details of all donations received and all expenditure incurred should be available for any member of the Council or for any member of the public to inspect by appointment.

	Audit and Standards Advisory Committee 7 December 2021
	Report from Strategic Director Customer & Digital Services
Cyber Security strategy implementation update	

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	3 1. STS/Brent Cyber Security Strategy Update 2. Brent Cyber Security Strategy 3. STS Cyber Security Strategy
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Sadie East, Director of Transformation Customer and Digital Services Tel: 0208 937 1507 Email: Sadie.East@brent.gov.uk

1.0 Purpose of the Report

- 1.1 At the last meeting of the ASAC, it was agreed that a report be brought back to the next Committee regarding the actions that the Council are taking in relation to cyber security. The report at Appendix 1 provides an update on progress in implementing the Brent and Shared Technology Service (STS) cyber security Strategies.

2.0 Detail

Brent Cyber Security Strategy

- 2.1 The Brent Cyber Security Strategy (BCSS) was developed and agreed by Cabinet in 2019 in response to a number of successful and high profile cyber-attacks on public and private organisations. The BCSS was developed to strengthen Brent's IT network and support the delivery of the 2019-23 Digital Strategy.
- 2.2 A Cyber Security Work Programme was developed as the key framework for delivering on the BCSS. The Work Programme aims to comply with the principles of the government backed scheme - Cyber Essentials - and to follow the "10 Steps to Cyber Security" framework as published by the National Cyber Security Centre in 2012.

- 2.3 To date, a number of Cyber Essentials recommendations have been implemented. These include;
- Strict restrictions on the use of USB storage devices and auto run is disabled
 - Removing / isolating non-compliant legacy servers and other devices from the Brent network
 - Implementation of One Source, a vendor/application management system
- 2.4 Outside of Cyber Essentials, STS has also implemented a cloud based corporate back-up solution by Rubrik to counter ransomware attacks such as the high profile attack on Hackney Council's IT Network in 2020.
- 2.5 The BCSS (Appendix 2) is currently being refreshed to align with to Brent's updated Digital Strategy 2022-2026 (the strategy is being presented for Cabinet agreement on 6 December 2021), and to reflect an ever changing cyber threat landscape.
- 2.6 The refreshed BCSS will continue to build upon the progress made on the Cyber Security Work Programme, enabling Brent to comply with the latest security standards and achieve Cyber Essentials certification by early 2022.

Shared Technology Services Cyber Security Strategy

- 2.7 The Shared Technology Services (STS) is an IT shared service for the councils of Brent, Lewisham and Southwark with Brent council as the host borough for the service.
- 2.8 The STS Cyber Security Strategy (STSCSS) (Appendix 3) is aligned to Brent's CSS. The recommendations in the strategy are embedded in all areas of new and emerging technologies which STS implement for Brent and the other boroughs in the STS.
- 2.9 The report provided provides an update on the work which STS is doing to support implementation of the Brent and STS Cyber Security Strategies. This includes investment in infrastructure and cyber security included in the STS Technology Roadmap, which was agreed for Brent by Cabinet in June 2021.

3.0 Risk management and audit

Risk management:

- 3.1 The risk of cyber attack is monitored as a key risk on Brent Council's strategic risk register. The risk is owned the Managing Director of the Shared Technology Service and mitigations include the new Rubrik backup solution referred to above.
- 3.2 There are a number of other activities which mitigate the risk which include:
- Multi factor authentication (MFA) has been implemented for all Office 365 access.

- Anti-Virus is in use across STS estate and pattern files are updated regularly.
- Both web filtering and mail filtering are in place for all staff.
- As well as the yearly PCN/PSI, an in depth penetration test was carried out by Dionach, an external specialist
- Annual training is mandated for all staff and phishing simulations to both staff and elected members.
- Replacement of all end-of-life mobile phones to ensure that they continue to be in support from the vendor, thus receiving security updates.
- Continual work is being conducted in making sure that versions of Windows and the applications are supported and have the latest security updates.
- Significant investments have been made in purchasing the tools needed to keep our systems safe and a forward plan for the remaining four years has been built to ensure that are able to respond to the ever changing threat landscape.
- Brent and the partnering councils in STS have a 24x7 third party Security Operations Centre monitoring any unusual activity and will disable and remove any detected threats.
- STS monitors guidance released from the National Cyber Security Centre and implements those recommendations when possible, such as a new password policy due to be communicated Q1 2022.
- A range of internal communications campaigns have taken place to raise awareness of the threat of phishing and other risks. This included a presentation at the recent Brent Tech Week.

3.3 The number of improvements made in the past twelve months has seen a reduction in cyber investigations. Progress is monitored in the quarterly Shared Service Joint Committee.

Internal audit:

3.4 On 3 November 2020, Brent Council held a cyber security workshop facilitated by Internal Audit. This was a self-assessment review of the organisation's cyber security arrangements and the demands on its security functions managed by the Shared Services and within the Council. This was timed as the organisation aimed to advance its cyber security 'deter, defend, detect' strategy. The findings of this workshop have been collated and shared and are built the work outlined in this report.

3.5 A review has been planned as part of the 2021/22 audit plan, as agreed by the Council's Audit Committee, with the objective of evaluating the design of the Council's security controls developed to prevent and detect security and data incidents given the increased reliance on technology by Council staff when working from home and the potential for emerging opportunistic threats. This review will commence in January 2022.

4.0 Financial Implications

4.1 The STS Technology Roadmap was agreed by Cabinet in June 2021. This included £10m infrastructure investment over 4 years for Brent including activities to support cyber security. Cyber Protection is one of five key themes of the roadmap.

5.0 Legal Implications

5.1 None.

6.0 Equality Implications

6.1 None.

7.0 Consultation with Ward Members and Stakeholders

7.1 The Lead Cabinet member with responsibility for ICT (the Deputy Leader) has been informed and consulted during the development of the current and refreshed Cyber Security Strategies.

7.2 The refreshed Cyber Security Strategy for 2022-26 will be presented for Cabinet for agreement in early 2022.

8.0 Human Resources/Property Implications (if appropriate)

8.1 None

Report sign off:

Report sign off:

PETER GADSDON

Strategic Director, Customer and Digital Services

STS \ Brent Cyber Security Strategy Update



NOVEMBER 29 2021

1 Version Control

<i>Version</i>	<i>Summary</i>	<i>Date</i>	<i>Editor</i>
0.1	Initial Draft	21/10/2021	JC
0.2	Comments	15/10/2021	SE
0.3	Amended draft	19/11/2021	RD

2 Document Approval

<i>Version</i>	<i>Date</i>	<i>Approver</i>
1.0	19/11/2021	SE

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3 Introduction

This report sets out where STS are working to help deliver on the Brent Cyber Strategy 2019-23. STS has developed a roadmap of technologies required to deliver on business priorities. The roadmap includes items that will improve the security of Brent Council in line with the Brent Cyber Security Strategy 2019-23. This report sets out progress in delivery of these improvements under three key themes:

- Defend
- Deter
- Develop

4 Implementation Plan

4.1 Defend

Firewalls

Firewalls are in place both externally and between zones. Work is on-going as part of Cyber Essentials to ensure all rules have a business case and are documented.

Health checks

Health checks are carried out annually as part of the submission for Public Sector Network (PSN) code of connection. Web check from the National Cyber Security Centre (NCSC) is configured and in use. We further use early warning from the NCSC, which allows us to receive notifications of malicious activity and help investigate attacks on network quickly.

Compliance

Brent currently meets the requirements of the three compliance regimes they are signed up to.

- PSN next submission due June 2022.
- NHS Data Security Protection Toolkit (DSPT) next submission due June 2022
- Payment Card Industry (PCI) Compliance next quarterly scan due December 2021

Working with partners

STS is an active member of the local warning advice and reporting (WARP), Information security for London (ISfL) and Information Governance for London (IGFL).

STS is currently engaging with the London Office of Technology and Innovation (LOTI) about the viability of a central security operations centre (SOC) that can be useful to all London councils, and is one of the first tranche of organisations to be involved in this initiative.

4.2 Deter

Governance

- Applying Government's Cyber Security Guidance.

-
- 10 Steps to Cyber Security - see section 6
 - Cyber Essentials - see section 7

Technology and Information

Network Security:

All privileged users have separate standard user accounts for web browsing and reading email. Protected using the same web filtering and mail filtering software in place for all staff.

Multi Factor Authentication (MFA):

MFA is in place for all Office 365 access, using a risk based approach. All privileged access both to Office 365 and Azure admin services requires MFA to be used.

Privileged account passwords:

Default passwords on infrastructure are all changed to non-easily guessable passwords. The length and complexity requirements for privileged accounts is set such that they are more complex than standard accounts.

Malware prevention:

Anti-Virus is in use across the estate and pattern files are updated regularly. Both web filtering and mail filtering are in place for all staff.

Removable media controls:

In general staff do not have access to USB storage devices, other than mobile phones, for access to photographs. Staff in specific areas, cleared by the Information Governance team, have access to USB storage for specific purposes.

Secure Configuration:

All devices are built from standard configurations both end use compute and server estate. Group policy is applied to ensure common security standards. There are improvements which can be applied, these are covered in Appendix A

Training and educating users:

Phishing simulations have been taking place to increase user awareness of what phishing looks like. An opportunity to take further training is afforded to those who wish to take up the option. During the last year the Phish alarm button has been deployed to everyone to make it simpler to report potential Phishing emails.

4.3 Develop

Risk Register

A corporate risk register is held by Brent. STS have a general risk register that includes digital risk, this is shared with all partners of the shared service.

Cyber Threat Levels

Vigilance is maintained by reading the weekly NCSC cyber threat reports, further evidence and advice is sought from NHS cyber alerts and through engagement with the local WARP.

Penetration testing and incident response

IT health checks are carried out every year as part of the PSN submission. This year a more in depth penetration test was carried out by Dionach with funding from the Local Government Association (LGA).

Dionach will also be providing training to STS staff to carry out some of the testing methods they used. This will enable more regular checks in specific areas to take place.

A positive that came out of the penetration test was that the host based threat detection tools on the server estate picked up the activity of the testers. This demonstrates that if this had been an actual incident we would have been able to respond in a timely manner.

Introducing training for staff and elected members

As well as the yearly training mandated for staff, more work has taken place this year on providing phishing simulations to both staff and elected members. The phishing exercises and enhanced training were provided with funding through the LGA. Working

with the Information Governance team, STS will extend the use of the phishing simulation and enhanced cyber training.

Incident response and communications

Incident response playbooks have been developed and held for specific cyber events including unauthorised access, data breach, malicious code and Distributed Denial of Service (DDOS). Within the plans there are details of external parties and partners who can be contacted for help and advice. Including LGA, NCSC, Information Commissioners Office (ICO) and providers of cyber security tools.

5 Standards

5.1 Cyber Essentials

Significant work has been taking place over the last 12 months to get to a point where Cyber Essentials can be applied for.

- 1) Work on the iPad and iPhone estate, to remove legacy devices.
- 2) Work to remove legacy windows 2008 and windows 7 devices from the estate.
- 3) Documenting firewall rules to ensure they are aligned with business cases.

Once points 2 and 3 are completed, Brent will be in a position to apply for Cyber Essentials in early 2022.

5.2 ISO 27001

ISO 27001 is the accepted global benchmark for demonstrating your information security management systems. Some initial investigations have taken place. We will be looking to engage with a partner who has experience in obtaining ISO 27001. Further implementation and audit training will be required for the team undertaking the task of delivering ISO 27001. Funding will be required to deliver this project with STS.

6 NCSC 10 Steps to Cyber Security

Cyber security is central to the health and resilience of any organisation reliant on digital technology to function.

The NCSC has put together the 10 steps to Cyber Security help organisations manage their cyber security risks by breaking down the task of protecting the organisation into 10 components. Adopting security measures covered by the 10 Steps reduces the likelihood of cyber-attacks occurring, and minimises the impact to Brent Council when incidents do occur.

Brent Council are following the 10 step guidance and have the following in place:-

Risk Management Regime:

Current STS digital risks fed through to Brent's corporate risk register

Secure Configuration:

Currently all server and end user compute builds are created using a standard format. Tools and techniques to ensure that configurations are maintained over time are being investigated. This could be a 3rd party tool or using Microsoft features to ensure secure configuration and minimising the attack surface.

Network Security:

Firewalls, web proxies are in place, some segmentation of the network is configured creating secure zones. Traffic between zones has to traverse a firewall.

The new Hyper Converged Infrastructure, which is about to go out to tender, allows for more separation of services by creating extra zones adding to the overall security profile.

As part of the Respond & Recover area, STS has given importance to offline backups in the case of a ransomware incident. Rubrik (new backup solution) was procured and the installation and configuration has been completed.

Managing User Privileges:

All IT admin staff have standard user accounts for day to day use and are expected to elevate access when privilege is required. All default passwords on infrastructure are changed at time of install.

User Education and Awareness:

User education has been enhanced by the use of phishing simulations. Guidance has been published on the intranet to not only guide staff at work, but also provide advice on technology at home - such as the NCSC guidance on smart devices, SMS and email fraud.

Incident Management:

Run books have been developed with more to be created to address cyber incidents. Cases are managed through the current ITSM system.

Malware Prevention:

Web filtering, mail filtering and antivirus are all in place for all colleagues. Attack surface reduction rule are being deployed across the laptop estate.

Monitoring:

Various monitoring is used across the estate, STS are also engaging with LOTI which is in the initial stages of developing a centralised security operations centre (SOC) for all London councils similar to that in use by the NHS.

Removable Media Controls:

Most staff do not have the ability to used USB storage devices, those that do have been cleared by information governance and auto run is disabled as a security measure.

Home and Mobile Working:

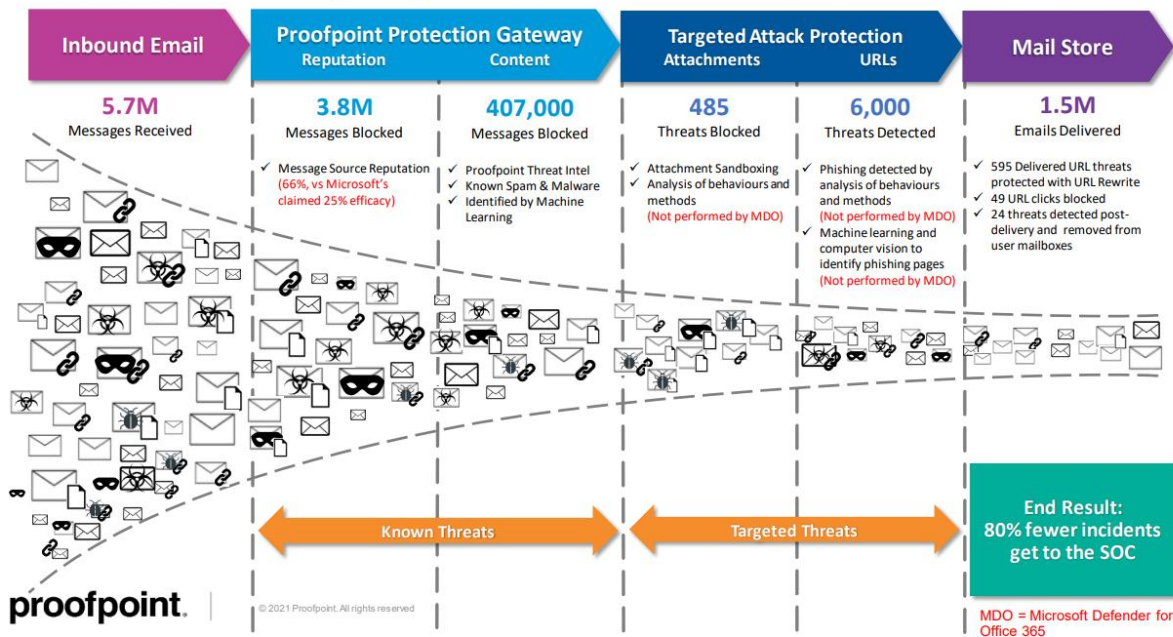
Where VPN is in use and RDP, multi factor authentication is also used. The majority of staff working from home do so from securely configured Windows 10 laptops using direct access technology. The windows image used is checked as part of the annual IT health check.

7 Appendix A

Latest reports from Proofpoint and Forcepoint mail filtering and web filtering.

Proofpoint

A month of analyzing Council data – Brent & Lewisham



Report covers both Brent and Lewisham for 1 month, of 5.7 Million messages sent to the council only 1.5 Million are delivered as safe.

There will still be instances of messages getting through that are not safe, this is where user vigilance and training comes in.

To assist staff in combating phishing and to make the reporting of emails a simpler process Phish Alarm a button inside exchange has been rolled out to everyone to simplify reporting.

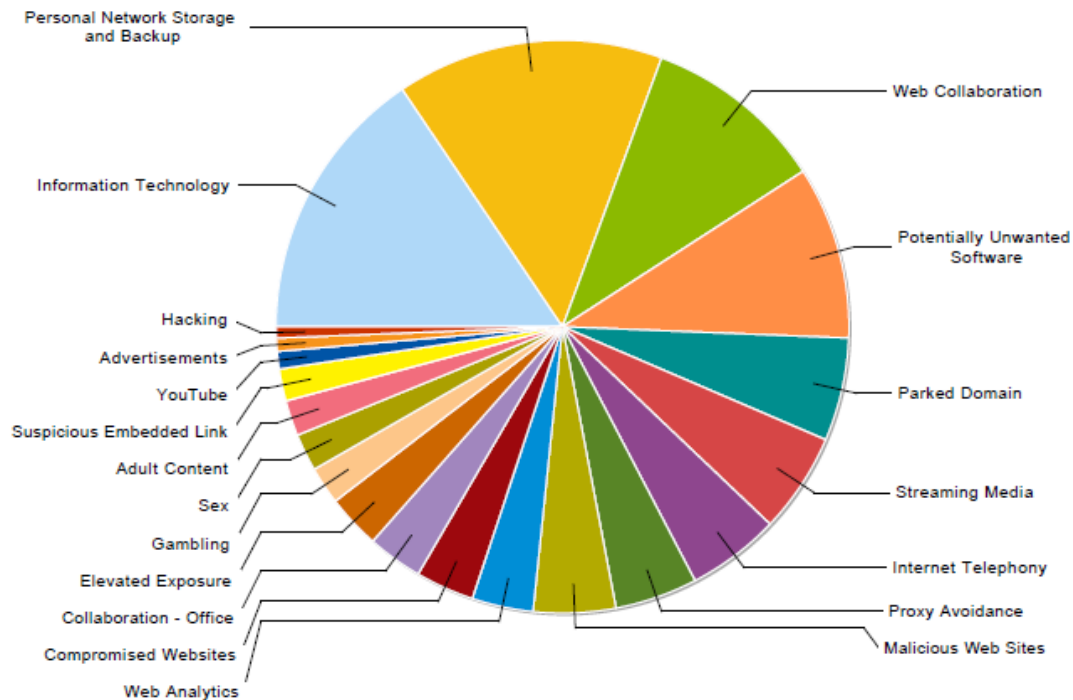
Web Filtering

FORCEPOINT
SECURITY PORTAL

Category Top 20

Date Range: **Last 1 month**

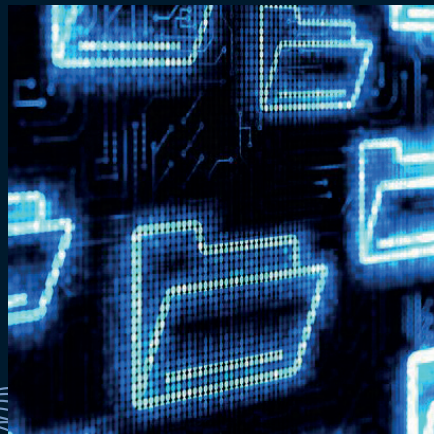
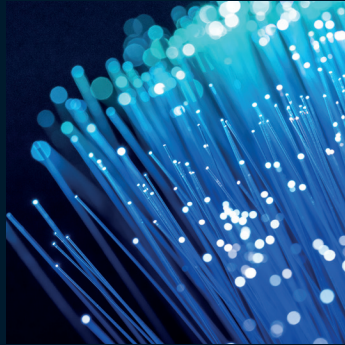
Action: *equals* **Blocked**



Forcepoint has been in place for over two years and STS a contract with them for another two years. The pie chart above shows the range of sites that are currently being blocked helping to protect the network.

BRENT CYBER SECURITY STRATEGY

2019-2023



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FOREWORD

Information and data are vital to every part of Brent Council's business. As we continue with a digital programme that is transforming the way we work and how local people access information and services, we need increasingly robust security measures to protect against cyber threats.

Across the globe, cyber attacks are growing more frequent and sophisticated. When they succeed the damage can be life-altering; with severe personal, economic and social consequences.

This Cyber Security Strategy sets out our approach for protecting our information systems and the data they hold to ensure the services we provide are secure and our residents, businesses and stakeholders can safely transact with us. This includes achieving a balance of embracing digital opportunities, including making information more widely available and accessible, whilst ensuring that right levels of protection are in place.

This strategy demonstrates our commitment and the key actions we will take over the next four years to further establish a trusted digital environment for Brent. We will strengthen and secure Brent from cyber threats by investing in our systems and infrastructure, deterring our adversaries, and developing a wide range of responses; from basic cyber hygiene to the most sophisticated defences.

Cyber-attacks will continue to evolve, which is why we will continue to work at pace to stay ahead of all threats. We will deliver real-world outcomes and ground-breaking innovations to reduce the risks to our services and deter would-be attackers.

This Cyber Security Strategy underpins and enables the Brent Digital Strategy; which continues to ensure we harness the benefits of technology to improve the lives and life chances of all local people. The measures outlined in this strategy will safeguard trust and confidence in the way we operate and deliver our services, supporting Brent to remain at the forefront of the digital revolution.



A handwritten signature in black ink, which appears to read 'Margaret McLennan'.

Cllr Margaret McLennan
Deputy Leader, London Brent Council

INTRODUCTION

This document sets out Brent Council's application of information and cyber security standards to protect our information systems, the data held on them, and the services we provide, from unauthorised access, harm or misuse. It is our cyber security commitment both to the people we represent and the national interest; and emphasises the importance of cyber security in the role of all council staff.

WHAT IS CYBER SECURITY AND WHY IS IT IMPORTANT?

Cyber security is the practice of ensuring the confidentiality, integrity and availability (CIA) of information.

- **Attacks on Confidentiality** – stealing, or rather copying personal information.
- **Attacks on Integrity** – seeks to corrupt, damage or destroy information or systems and the people who rely on them.
- **Attacks on Availability** – denial of services, seen in the form of ransomware.

Cyber security refers to the body of technologies, processes, and practices designed to protect networks, devices, programs, and data from attack, damage, or unauthorized access. Cyber security may also be referred to as information technology security.

Cyber security is important because, in order to effectively deliver services, Brent council collects, processes, and stores large amounts of data on computers and other devices. A significant portion of this data is sensitive information, including financial data, personal information, or other types of data for which unauthorized access or exposure could have negative consequences.

Brent council transmits sensitive data across networks and to other devices in the course of providing services. Cyber security is the discipline dedicated to protecting this information and the systems used to process or store it.

Cyber security is crucial in ensuring our services are kept up and running. It is also vital in ensuring the public trusts the council with their information. A cyber-attack could have very serious consequences, both in terms of disrupting services – many of which serve our most vulnerable residents – and through damage to the council's reputation.

STRATEGIC CONTEXT

The overarching vision in the Brent Borough Plan (2019-2023) is “to make Brent a borough of **culture**, **empathy**, and **shared prosperity**”. Achieving this vision will require innovation, continued and deeper partnerships, and careful planning based on sound evidence.

The Brent Digital Strategy (2019-2023) sets out Brent’s ongoing digital transformation, including how technology will be used to progress each of the Borough Plan themes: strong foundations; every opportunity to succeed; a borough where we can all feel safe, secure, happy and healthy; a cleaner more considerate Brent; and a future build for everyone, an economy fit for all.

This Cyber Security Strategy supports delivery of the Borough Plan and Digital Strategy by providing a framework for Brent to securely harness the benefits of the digital revolution for the benefit of all stakeholders. It is essential to the efficient running and evolution of the council.

This Cyber Security Strategy sits alongside the Brent ICT Strategy and is supported by a suite of operational policies (Information Security Policy, Information Risk Policy and Access to Information Rule Book).



PURPOSE

The council seeks to deliver its digital strategy through transforming Brent into a digital place and a digital Council. The scale of transformation represents an unprecedented culture shift for the Council, residents, partners and businesses.

The Cyber Security Strategy is a new strategy, introduced in response to a number of successful and high profile cyber-attacks on public and private organisations. The purpose of the strategy is to give assurance to residents and other stakeholders of the council's commitment in delivering robust information security measures to protect resident and stakeholder data from misuse and cyber threats, and to safeguard their privacy through increasingly secure and modern information governance and data sharing arrangements - both internally and with partners.

Through delivery of this strategy we will comply with and embed the principles of 'Cyber Essentials'; a government-backed, industry-supported scheme to help organisations protect themselves against common online threats. We will also follow the "10 Steps to Cyber Security" framework published by the National Cyber Security Centre (included as Appendix 2).

SCOPE OF THE STRATEGY

This strategy is intended to cover all Brent Council information systems, the data held on them, and the services they help provide. It aims to increase cyber security for the benefit of all Brent residents, businesses, partners and stakeholders; helping to protect them from cyber threats and crime.



THE CHALLENGE WE FACE AS A COUNCIL

Brent Council is using an increasing range of technology, from apps and the cloud, to different devices and gadgets. Much of our business is online: corresponding with residents and local businesses, carrying out case work, and reviewing reports and papers for council meetings.

This direction of travel is expected to continue and accelerate; making effective cyber security ever more crucial in protecting against new types of threats, risks and vulnerabilities.

THREATS

A threat if left unchecked, could disrupt the day-to-day operations of the council, the delivery of local public services and ultimately has the potential to compromise national security.

TYPES OF THREATS

CYBERCRIMINALS AND CYBERCRIME

Cybercriminals are generally working for financial gain. Most commonly, for the purposes of fraud: either selling illegally gained information to a third party, or using directly for criminal means.

Key tools and methods used by cybercriminals include:

- **Malware** – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals
- **Ransomware** – a kind of malware that locks victims out of their data or systems and only allows access once money is paid
- **Phishing** – emails purporting to come from a public agency to extract sensitive information from members of the public.



HACKTIVISM

Hacktivists will generally take over public websites or social media accounts to raise the profile of a particular cause.

When targeted against local government websites and networks, these attacks can cause reputational damage locally. If online services are regularly disrupted by cyber-attacks this could lead to the erosion of public confidence in using such services.

Hactivist groups have successfully used distributed denial of service (DDoS – when a system, service or network is burdened to such an extent by an electronic attack that it becomes unavailable) attacks to disrupt the websites of a number of councils already.

INSIDERS

Staff may intentionally or unintentionally release sensitive information or data into the public domain. This may be for the purpose of sabotage or to sell to another party, but more often than not is due to simple human error or a lack of awareness about the particular risks involved.

ZERO DAY THREATS

A zero day exploit is a cyber-attack that occurs on the same day a weakness is discovered in software. At that point, it's exploited before a fix becomes available from its creator. It is an attack that exploits a previously unknown security vulnerability.

This poses a risk to any computer or system that has not had the relevant patch applied, or updated its antivirus software.

OTHER THREATS INCLUDE PHYSICAL THREATS

The increasing reliance on digital services brings with it an increased vulnerability in the event of a fire, flood, power cut or other disaster natural or otherwise that impact upon council IT systems.

TERRORISTS

Some terrorist groups demonstrate intent to conduct cyber-attacks, but fortunately have limited technical capability. Terrorist groups could obtain improved capability in a number of ways, namely through the sharing of expertise in online forums providing a significant opportunity for terrorists to escalate their capability.

ESPIONAGE

Several of the most sophisticated and hostile foreign intelligence agencies target UK government and public sector networks to steal sensitive information. This could ultimately disadvantage the UK in diplomatic or trade negotiations, or militarily.

VULNERABILITIES

Vulnerabilities are weaknesses or other conditions in an organisation that a threat actor; such as a hacker, nation-state, disgruntled employee, or other attacker, can exploit to adversely affect data security.

Cyber vulnerabilities typically include a subset of those weaknesses and focus on issues in the IT software, hardware, and systems an organisation uses.

- **System Maintenance** – IT systems should be updated and checked regularly and effectively. It is essential that the systems are fully updated and appropriate fixes are applied. Poor setup, mismanagement, or other issues in the way an organisation installs and maintains its IT hardware and software components is a threat.
- **Legacy Software** – To ensure that legacy systems have sufficient user and system authentication, data authenticity verification, or data integrity checking features that prevent uncontrolled access to systems.
- **Training and Skills** – It is fundamental that all employees have a fundamental awareness of cyber security and to support this.

RISKS

Cyber Risk Management is a fundamental part of the broader risk management to ensure cyber security challenges are fully identified across the council and appropriate action is carried out to mitigate the risk.

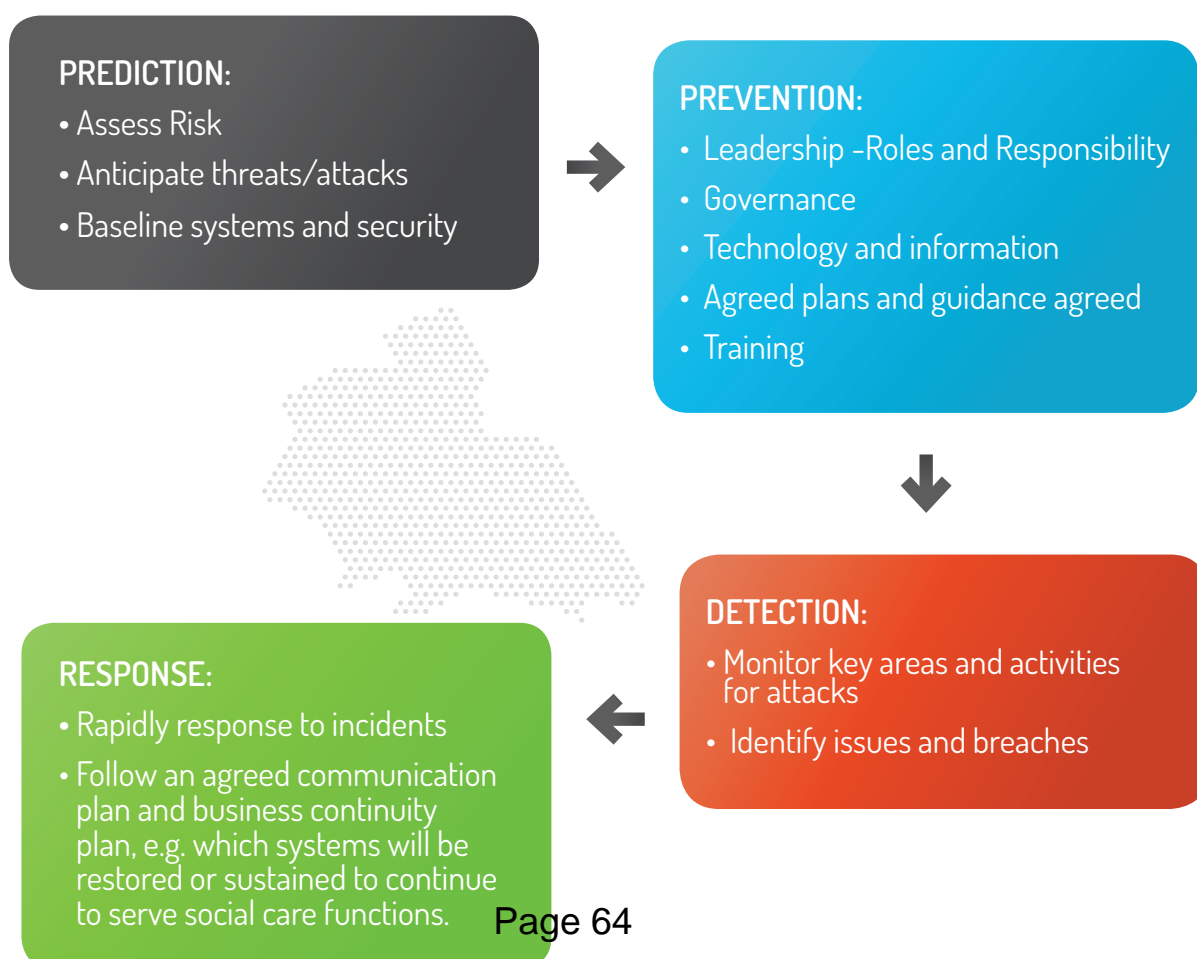


OUR APPROACH, PRINCIPLES AND PRIORITIES

To mitigate the multiple threats we face and safeguard our interests in cyberspace, we need a strategic approach that underpins our collective and individual actions in the digital domain over the next four years. This will include:

- A council wide risk management framework to help build a risk aware culture within the council, ensuring staff understand how to identify and manage risks.
- Cyber Awareness training to help mitigate insider threats, understand supply chain risks and ensure all staff understand the issues and their responsibilities.
- Applying the Cyber Essentials scheme controls and complying with frameworks including ISO 27001 and CESG Information Assurance Standard 1 & 2 to ensure that the council will be able to identify, mitigate and protect against information security risks in a prioritised and resourceful fashion.

The diagram below shows the key steps for protecting the council and its contractors for cyber attacks:



IMPLEMENTATION PLAN

To adapt to the changing landscape and achieve our vision we will align with the National Cyber Security Strategy's approach to defend Brent council and our residents' cyberspace, to deter our adversaries and to develop our capabilities.

DEFEND

The council will have the means to defend against evolving cyber threats, to respond effectively to incidents, and to ensure networks, data and systems are protected and resilient. It includes helping our residents, businesses and partners in gaining the knowledge and ability to defend themselves.

Actions:

- Implementing firewalls and scanning services
- Carrying out health checks, penetration test and cyber resilience exercises to test their systems and processes, e.g. Web Check – a website configuration and vulnerability scanning service, developed with a number of public sector organisations including councils. This is free to use and available to all public sector organisations
- Meeting compliance regimes, Code of Connection (CoCo) which require good cyber hygiene, to connect to government private networks, e.g. Public Sector Network (PSN) and the Health and Social Care Network
- Working with partners across the public sector through participation in Cyber Security Information Sharing Partnership (CiSP), Warning, Advice and Reporting

DETER

The council will be a hard target for all forms of aggression in cyberspace. This will involve detecting, understanding, investigating and disrupting hostile action against us.

Actions:

- **Governance**
 - Applying government's cyber security guidance, e.g. 10 Steps to Cyber Security or Cyber Essentials
- **Technology and information**
 - Network Security

Users with wide ranging or extensive system privilege shall not use their highly privileged accounts for high-risk functions, in particular reading email and web browsing

 - Multi-factor authentication shall be used where technically possible, such as where administrative consoles provide access to manage cloud based infrastructure, platforms or services. Multi - factor authentication shall be used for access to enterprise level social media accounts
 - Passwords for highly privileged system accounts, social media accounts and infrastructure components shall be changed from default values and shall not be easy to guess. Passwords which would on their own grant extensive system access, should have high complexity
 - Malware prevention
 - Removable media controls
 - Secure configuration
- **Agreed plans and guidance**
- **Training or educating users can help detect, deter and defend against the Cyber threats**

DEVELOP

The council will continually develop our innovative cyber security strategy to address the risks faced by our residents, businesses and community and voluntary sector.

This includes developing a co-ordinated and tailored approach to risks and threats that we may encounter and mitigate potential vulnerabilities.

Actions:

- Develop and maintain risk management framework, internal control and governance for the prevention and detection of irregularities and fraud
- Process, procedures and controls to manage changes in cyber threat level and vulnerabilities
- Managing vulnerabilities that may allow an attacker to gain access to critical systems
- Operation of the council's penetration testing programme; and Cyber-incident response
- Introducing training for staff and elected members
- Develop an incident response and management plan, with clearly defined actions, roles and responsibilities
- Develop a communication plan in the event of an incident which includes notifying (for example) the relevant supervisory body, senior accountable individuals, the Departmental press office, the National Cyber Security Centre (NCSC), Government Security Group (Cabinet Office), the Information Commissioner's Office (ICO) or law enforcement as applicable (not exhaustive)

CRITICAL SUCCESS FACTORS

Throughout this period of challenging transformation, the council has committed to delivering robust information security measures to protect residents and stakeholder data from misuse and cyber threats, and to safeguard their privacy through increasingly secure and modern information governance and data sharing arrangements both internally and with partners.

To continue to provide assurance on the effectiveness and robustness of the council's arrangements for IT security, the council will:

- Develop appropriate cyber security governance processes
- Develop a council wide Cyber Risk Management Framework
- Develop policies/procedures to review access on a regular basis
- Create a cyber-specific Business Continuity Management Plan and/or review Brent's Incident Plan to include emergency planning for cyber attack
- Develop an incident response and management plan, with clearly defined actions, roles and responsibilities. A copy of all incidents shall be recorded regardless of the need to report them
- Set up a Playbook to have test incidents on a regular basis; to ensure reaction to incidents where an incident is triggered
- Create standard test plans with security testing as a standard
- Reconcile current systems in place and last times these were reviewed (build into Enterprise Architecture)
- Review vendor management – process of assessments of third parties
- Explore Active Cyber Defence tools and new technologies to ensure Brent has best solutions to match to threats
- Apply the governments cyber security guidance – 10 Steps to Cyber Security
- Provide relevant cyber security training for staff and elected members
- Apply a regular schedule of cyber exercises, within the wider cycle of multi-agency incident response and recovery exercises
- Comply with the Governments Public Sector Network (PSN) Code of Connection and Payment Card Industry (PCI) standards; a minimum requirement for all systems used, audit trails, deletion of data etc.
- Protect enterprise technology by working with specialist partners to develop model architecture and review audit logs to reduce chances of threats

CYBER SECURITY GOVERNANCE ROLES AND RESPONSIBILITIES

Effective cyber security governance in Brent is delivered through the following roles and functions.

Senior Information Risk Owner (SIRO)

The Council's nominated Senior Information Risk Owner (SIRO), is the Director of Legal, HR, Audit and Investigations. The SIRO is responsible for the governance of cyber security and information risk within the Council. This includes ensuring that information governance risk is managed in accordance with GDPR.

However, whilst the SIRO is the nominated officer, responsibility for safeguarding information and information systems is shared across the organisation with all staff having a role to play.

The Cabinet

The Cabinet is made up of the Leader of the Council and other senior councillors (Cabinet members). Cabinet will agree and receive updates on implementation of the Cyber Security Strategy.

Council Management Team (CMT)

CMT sponsor the Cyber Security Strategy and oversee the strategic framework through which the council governs its information resources.

Information Governance Group (IGG)

The IGG is comprised of senior representatives from each service area. The group are responsible for overseeing the delivery of the Cyber Security Strategy and monitoring its effectiveness.

GDPR officer

The GDPR officer leads on the Readiness Programme. They monitor and report progress to the IGG and to all employees across the council; support services through a network of Information Champions; develop and maintain a corporate inventory of all processing activity across the council; review these processing activities and seek legal assurance; and review contracts and ensure that GDPR changes are reflected.

Information Governance Team (IGT)

The IGT define the scope of the GDPR readiness strategy. They also design and oversee the work streams and liaise with services and specialist areas to ensure tasks are fully completed on time.

Technical Design Authority (TDA)

The Technical Design Authority (TDA) make decisions regarding technical implementations for projects. This includes ensuring that cyber security implications are properly considered.

Digital Board

The Digital Board oversees implementation of Brent's Digital Strategy. They ensure that risks, issues and dependencies are proactively managed and make decisions in relation to any risks and issues that have been escalated in relation to the digital programme.

Shared ICT Service

Shared ICT Services oversees the delivery of the Shared ICT Service for Brent, Lewisham and Southwark.

Information Asset Owners (IAO)

Information Asset Owners are responsible for all processing of personal data within their business area.

All Brent officers

It is the responsibility of all officers to comply with the standards set out in this Cyber Security Strategy

APPENDIX 1

STANDARDS

Information Security Management within Brent Council will comply with the British Standard: BS ISO/IEC 27001:2013

This standard specifies requirements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a documented information security management system (ISMS) within the context of the Council's overall business risks. It specifies requirements for the implementation of security controls customised to the needs of the Council.

ISO27032 and The Government's Cyber Essentials provide security standards for the Internet (referred to as "Cyberspace" or "Cyber")

Brent complies with PSN and PCI standards.

APPENDIX 2

NCSC: 10 STEPS TO CYBER SECURITY

Risk Management Regime

Embed an appropriate risk management regime following the ISO27k standards, across the organisation. This should be supported by an empowered governance structure, which is actively supported by the board and senior managers. Clearly communicate your approach to risk management with the development of applicable policies and practices. These should aim to ensure that all employees, contractors and suppliers are aware of the approach, how decisions are made, and any applicable risk boundaries.

Secure configuration

Having an approach to identify baseline technology builds and processes for ensuring configuration management can greatly improve the security of systems. You should develop a strategy to remove or disable unnecessary functionality from systems, and to quickly fix known vulnerabilities, usually via patching. Failure to do so is likely to result in increased risk of compromise of systems and information.

Network security

The connections from your networks to the Internet, and other partner networks, expose your systems and technologies to attack. By creating and implementing some simple policies and appropriate architectural and technical responses, you can reduce the chances of these attacks succeeding (or causing harm to your organisation). Your organisation's networks almost certainly span many sites and the use of mobile or remote working, and cloud services, makes defining a fixed network boundary difficult. Rather than focusing purely on physical connections, think about where your data is stored and processed, and where an attacker would have the opportunity to interfere with it.

Managing user privileges

If users are provided with unnecessary system privileges or data access rights, then the impact of misuse or compromise of that users account will be more severe than it need be. All users should be provided with a reasonable (but minimal) level of system privileges and rights needed for their role. The granting of highly elevated system privileges should be carefully controlled and managed. This principle is sometimes referred to as 'least privilege'.

User education and awareness

Users have a critical role to play in their organisation's security and so it's important that security rules and the technology provided enable users to do their job as well as help keep the organisation secure. This can be supported by a systematic delivery of awareness programmes and training that deliver security expertise as well as helping to establish a security-conscious culture.

Incident management

All organisations will experience security incidents at some point. Investment in establishing effective incident management policies and processes will help to improve resilience, support business continuity, improve customer and stakeholder confidence and potentially reduce any impact. You should identify recognised sources (internal or external) of specialist incident management expertise.

Malware prevention

Malicious software, or malware is an umbrella term to cover any code or content that could have a malicious, undesirable impact on systems. Any exchange of information carries with it a degree of risk that malware might be exchanged, which could seriously impact your systems and services. The risk may be reduced by developing and implementing appropriate anti-malware policies as part of an overall 'defence in depth' approach.

Monitoring

System monitoring provides a capability that aims to detect actual or attempted attacks on systems and business services. Good monitoring is essential in order to effectively respond to attacks. In addition, monitoring allows you to ensure that systems are being used appropriately in accordance with organisational policies. Monitoring is often a key capability needed to comply with legal or regulatory requirements.

Removable media controls

Removable media provide a common route for the introduction of malware and the accidental or deliberate export of sensitive data. You should be clear about the business need to use removable media and apply appropriate security controls to its use.

Home and mobile working

Mobile working and remote system access offers great benefits, but exposes new risks that need to be managed. You should establish risk based policies and procedures that support mobile working or remote access to systems that are applicable to users, as well as service providers. Train users on the secure use of their mobile devices in the environments they are likely to be working in.

Shared Technology Services Cyber Security Strategy 2021-2024

THE CHALLENGE

In a world of electronic information, the protection of our data is becoming ever more important. The amalgamation of data stored in smart watches to the far stretched 'misunderstood' cloud means we don't understand the footprint and trail our data leaves behind.

We exist in a culture powered by interconnecting data, constantly evolving and allowing us to make better decisions. We experience the benefits of this in public sector but due to our need and want to share, we create a weakening around our control of the data. Once it has left our environment and spreads out into other infrastructure the legislation, we use to govern our data may no longer have application.

This makes it even more critical for us to put in controls around how we use, store and process our data. It makes it critical for us to follow the guidance from the experts and to ensure that our systems are appropriately hardened and locked down to keep the attackers out and our systems continuously working well.

The real challenge comes when there is a need to encourage more collaboration, more access to information and to encourage transformation within an organisation. Very often, the rules around responsible data management stifles the ability to share. One of the most difficult jobs in this area is to effectively balance and enable transformation but also to continue the responsible use of data that we are accountable for.

Cyber incidents are on the rise, especially within public sector. We know that the ramifications are serious and widespread, from personal to economic. Protection and remediation are service disrupting and of significant financial expense. The impact on people affected by their stolen information can be disturbing and life altering in some cases.

This Cyber Security strategy outlines the focus we shall be adopting for our councils and customers. It is imperative that we put the right controls in place to protect and react to cyber threats going forward. We have a strong relationship with National Cyber Security Centre and other private cyber agencies which we will harness to help us to protect the data of our citizens and our customers.

We want to continue to use the benefits of technology to improve the lives of local people. This strategy will safeguard us all. It will build confidence in the way we operate and deliver our services and keep us at the forefront of the digital revolution.

INTRODUCTION

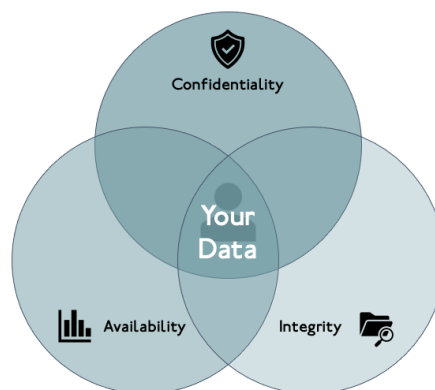
The Shared Technology Services (STS) is an IT shared service for the councils of Brent, Lewisham and Southwark. Brent council is the host borough for the service. STS is governed by a Inter Authority Agreement, a Joint Committee of two elected members from each council and the executive directors.

This document sets out the STS application of information and cyber security standards to protect our systems, the data held on them, and the services we provide from unauthorised access, harm or misuse. It is our cyber security commitment to the people we represent and is of national interest. It emphasises the importance of cyber security in the role of all staff.

WHY IS CYBER SECURITY IMPORTANT?

Cyber security is the practice of ensuring the confidentiality, integrity and availability (CIA) of information.

- Attacks on Confidentiality – stealing, or rather copying personal information.
- Attacks on Integrity – seeks to corrupt, damage or destroy information or systems and the people who rely on them.
- Attacks on Availability – denial of services, seen in the form of ransomware.



Cyber security refers to the body of technologies, processes, and practices designed to protect networks, devices, programs, and data from attack, damage, or unauthorised access. Cyber security may also be referred to as information technology security.

Cyber security is important because, in order to effectively deliver services, we all process and store large amounts of data on computers and other devices. A significant portion of this data is sensitive information. It includes financial data, personal information and other types of data for which unauthorised access or exposure could have negative consequences.

We transmit sensitive data across networks and to other devices in the course of providing services or even just using your mobile to look at social media. Cyber security is the discipline dedicated to protecting this information and the systems used to process or store it. It is everyone's responsibility to ensure that we manage our data appropriately.

Cyber security is crucial in ensuring our services are kept up and running. It is also vital in ensuring in building and keeping our public's trust. A cyber-attack would have very serious

consequences both in terms of a disruption to our services (many of which serve some of our most vulnerable residents), council's reputation and impact to our fiscal position.

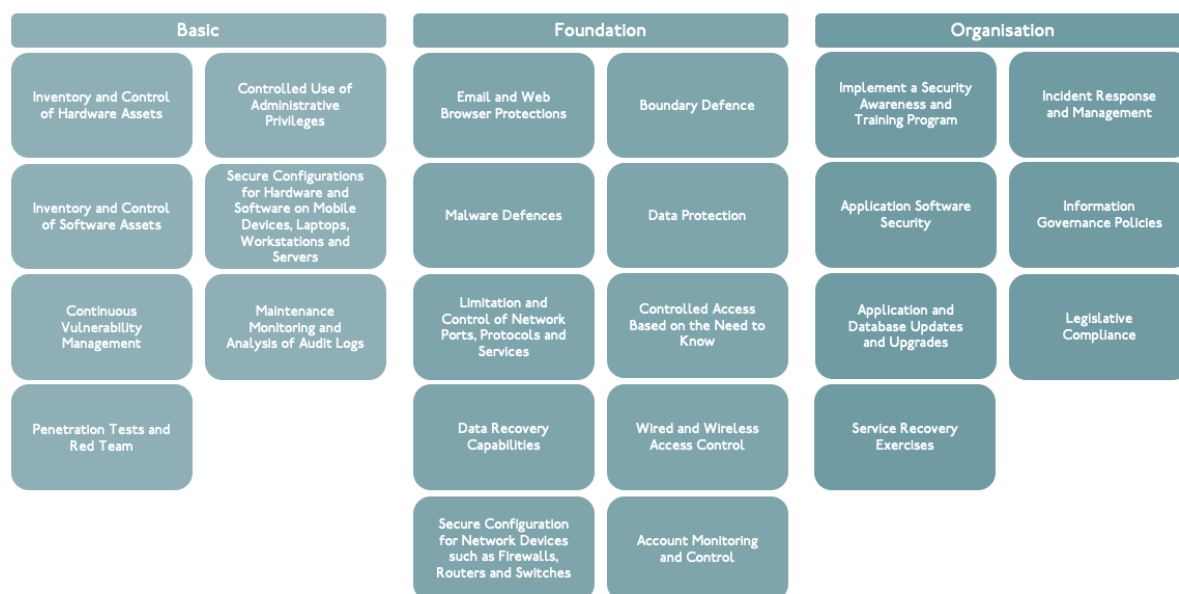
PURPOSE AND SCOPE

STS seeks to enable its partners to deliver its corporate and digital strategies, it is required that we allow our organisations to navigate cyber obstacles. The scale of transformation represents an unprecedented culture shift for staff, residents, partners and businesses. This in turn creates risk.

The Cyber Security Strategy is a new strategy introduced in response to several successful and high-profile cyber-attacks on public and private organisations. The purpose of the strategy is to give assurance to our councils and customers and to explain our commitment in delivering robust information security measures.

Through delivery of this strategy, we will comply with and embed the principles of 'Cyber Essentials'; a government-backed, industry-supported scheme to help organisations protect themselves against common online threats.

This strategy is intended to cover all partners and customers, the data on the systems we are responsible for, and the services they help provide. The recommendations in this strategy will be embedded in all areas of new and emerging technologies which we implement. It will also set out the best practices that will be rooted in our business as usual.



ASSETS

STS will regularly review the value of all assets across the partnership, ensure that political, social and economic values are considered to place the appropriate levels of protection around those digital and physical assets. Our assets:

- Data
- Services

- Infrastructure

VULNERABILITIES

Vulnerabilities are weaknesses or other conditions in an organisation that a threat actor; such as a hacker, nation-state, disgruntled employee, or other attacker, can exploit to adversely affect data security.

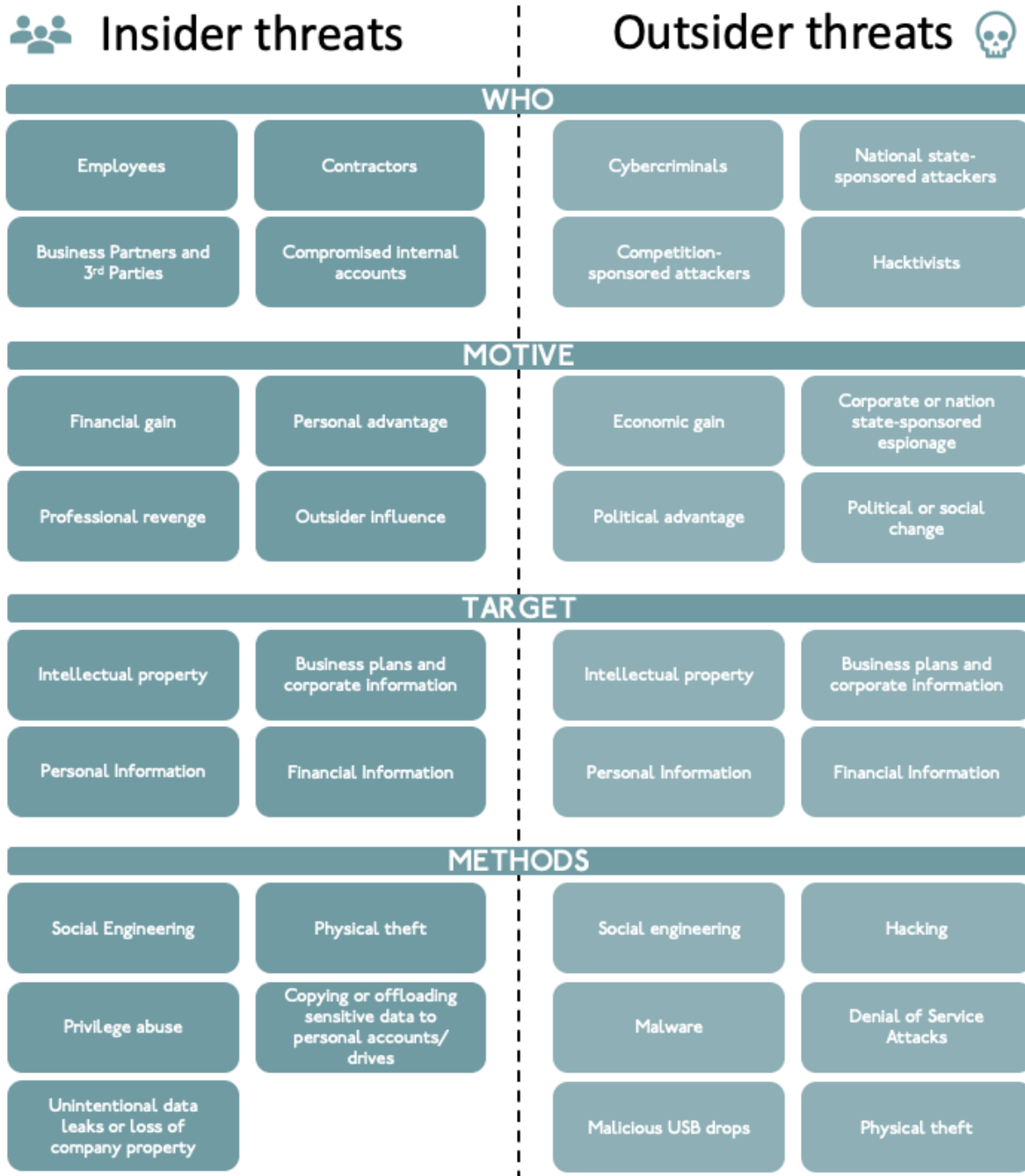
Cyber vulnerabilities typically include a subset of those weaknesses and focus on issues in the IT software, hardware, and systems an organisation uses.

- System Maintenance – IT systems should be updated and checked regularly and effectively. It is essential that the systems are fully updated and appropriate fixes are applied. Poor setup, mismanagement or other issues in the way an organisation installs and maintains its IT hardware and software components is a threat.
- Legacy Software – To ensure that legacy systems have sufficient user and system authentication, data authenticity verification, or data integrity checking features that prevent uncontrolled access to systems.
- Trend Analysis - The monitoring of organisational working patterns to identify unusual behaviour and respond accordingly.
- Training and Skills – It is of paramount importance that all employees have a fundamental awareness of cyber security to support this.

THREATS

If left unchecked, a threat could disrupt the day-to-day operations, the delivery of local public services and ultimately has the potential to compromise national security.

Generally, there are two types of threats. Insider Threats or Outsider Threats they are explained in detail below.



-CYBERCRIMINALS

Generally, cybercriminals are working for financial gain. Most commonly, for the purposes of fraud either by selling illegally gained information to a third party or using directly for criminal means.

Key tools and methods used by cybercriminals include:

- Malware – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals

- Ransomware – a kind of malware that locks victims out of their data or systems and only allows access once money is paid
- Phishing – emails purporting to come from a public agency to extract sensitive information from members of the public.

-HACKTIVISM

Hacktivists will generally take over public websites or social media accounts to raise the profile of a particular cause.

When targeted against local government websites and networks, these attacks can cause local reputational damage. If online services are regularly disrupted by cyber-attacks this could lead to the erosion of public confidence in such services.

Hackivist groups have successfully used distributed denial of service attacks to disrupt the websites of a number of councils already. (DDoS attacks are when a system, service or network is burdened to such an extent by an electronic attack that it becomes unavailable).

-INSIDERS

Staff may intentionally or unintentionally release sensitive information or data into the public domain. This could be for the purpose of sabotage or in order to sell to another party, but more often than not it is due to simple human error or a lack of awareness about the particular risks involved.

Malicious insider threats may include privileged administrative groups.

-ZERO DAY THREATS

A zero-day exploit is a cyber-attack that occurs on the same day or before a weakness has been discovered in software. At that point, it's exploited before a fix becomes available from its creator. It is an attack that exploits a previously unknown security vulnerability.

This poses a risk to any computer or system that has not had the relevant patch applied or the relevant updates to its antivirus software.

-PHYSICAL THREATS

The increasing reliance on digital services brings with it an increased vulnerability in the event of a fire, flood, power failure or other disaster (natural or otherwise).

-TERRORISTS

Some terrorist groups demonstrate intent to conduct cyber-attacks, but fortunately have limited technical capability. Terrorist groups could obtain improved capability in a number of ways, namely through the sharing of expertise in online forums providing a significant opportunity for terrorists to escalate their capability.

-ESPIONAGE

Several of the most sophisticated and hostile foreign intelligence agencies target UK government and public sector networks to steal sensitive information. This could ultimately disadvantage the UK in diplomatic, trade or military negotiations.

RISKS

Cyber Risk Management is a fundamental part of the broader risk management to ensure cyber security challenges are fully identified across the councils and appropriate action is carried out to mitigate the risk but also develop effective recovery and containment procedures in the event of an incident.

A risk consists of a threat and a vulnerability of an asset.

OUR APPROACH

To mitigate the multiple threats, we face and safeguard our interests, we need a strategic approach that underpins our collective and individual actions in the digital domain over the next three years. This will include:

- Foster a culture of empowerment, accountability and continuous improvement.
- Prioritising information assets and processes with our councils and customers, maintaining a register and conducting regular reviews including data retention policies.
- Ensuring adequate plans are in place to recover and quickly identify exposure.
- A council wide risk management framework to help build a risk aware culture within each of the councils, ensuring staff understand how to identify and manage risks.
- Cyber Awareness training and principles to help mitigate insider threats, understand supply chain risks and ensure all staff understand the issues and their responsibilities.

The diagram below shows the continual cycle for protecting the councils and its customers for cyber-attacks:



To further enhance the maturity and capability of the service we will be building a Cyber Security team within the Shared Service, this will focus on the delivering the technical controls and guidance to the councils and customers of the Shared Service. This will be led by a new role the Chief Information Security Officer. April 2021 will see a new Target Operating Model start which will ensure that focus is given to the maturity and capacity of the

council's defences.

IMPLEMENTATION PLAN

To adapt to the changing landscape and achieve our vision we will align with the National Cyber Security Strategy's approach to defend our, residents, councils and customers and deter our adversaries and to develop our capabilities.

It is recognised that each partner and council will be at different levels of maturity and capacity therefore STS has developed a 5-year (2021-2026) Technology Roadmap in which it will invest a significant number in cyber protections, look for opportunities where we can share, build and grow together but also react to different levels of risk appetite.

DEFEND

STS will have the means to defend against evolving cyber threats, to respond effectively to incidents, and to ensure networks, data and systems are protected and resilient. It includes helping our residents, businesses and partners in gaining the knowledge and ability to defend themselves.

Actions:

- Implementing daily firewalls and scanning services.
- Continue to email hygiene for all partners and enable Attack Targeted Prevention.
- Improve threat correlation and reporting services.
- Ensure vulnerability and patch management is kept up to date.
- Ensuring that Cyber Security is considered in any procurement of solutions.
- Work with councils and customers to ensure websites and line of business systems are kept secure.
- Continue with a 3rd party Security Operations Centre partner to give us the assurance and protection of our systems, using dynamic and Artificial Intelligence (AI) from across the global to identify immediate threats.
- Carrying out health checks, penetration test and cyber resilience exercises to test their systems and processes, e.g. Web Check – a website configuration and vulnerability scanning service, developed with a number of public sector organisations including councils. This is free to use and available to all public sector organisations.
- Identify an STS Red team to be able to respond to incidents and have relationships in place with government agencies and cyber specialists.
- Ensuring that we carryout regular backups and recovery exercises
- Meeting compliance regimes, Code of Connection (CoCo) which require good cyber hygiene, to connect to government private networks, e.g. Public Sector Network (PSN) and the Health and Social Care Network.
- Working with partners across the public sector through participation in Cyber Security Information Sharing Partnership (CiSP), Warning, Advice and Reporting.
- Comply with The Minimum Cyber Security Standard
- Comply with Data Protection Act 2018 (including the Applied General Data Protection Regulation EU679/2016) and the Freedom of Information Act 2000
- Comply with Section 224 of Local Government Act 1972

- Work towards ISO27001.
- Comply with Access to Health Record Act 1990 and Access to Personal Files Act 1987
- Comply with PCI-DSS requirements for taking electronic payments.

DETER

Our councils and customers will be a desirable target for all forms of aggression in cyberspace. This will involve detecting, understanding, investigating and disrupting hostile action against us.

Actions:

- Applying government's cyber security guidance, e.g. 10 Steps to Cyber Security or Cyber Essentials.
- Users with wide ranging or extensive system privilege shall not use their highly privileged accounts for high-risk functions, in particular reading email and web browsing.
- Multi-factor authentication shall be used where technically possible, such as where administrative consoles provide access to manage cloud based infrastructure, platforms or services. Multi - factor authentication shall be used for access to enterprise level social media accounts.
- Passwords for highly privileged system accounts, social media accounts and infrastructure components shall be changed from default values and shall not be easy to guess. Passwords which would on their own grant extensive system access, should have high complexity and introduce multi-factor authentication.
- Use of Malware prevention and ensure air gaps or immutable storage.
- Ensure removable media is encrypted to the last levels controls.
- Improve micro segmentation of the network to avoid attackers crossing the network.
- Secure configuration to avoid access to critical information and enabling attackers.
- Introduce cyber awareness and training for users to help detect, deter and defend against the cyber threats.

DEVELOP

This includes developing a co-ordinated and tailored approach to risks and threats that we may encounter and mitigate potential vulnerabilities.

Actions:

- Develop and maintain risk management framework, internal control and governance for the prevention and detection of irregularities and fraud
- Process, procedures and controls to manage changes in cyber threat level and vulnerabilities
- Managing vulnerabilities that may allow an attacker to gain access to critical systems
- Operation of the council's penetration testing programme; and Cyber-incident response
- Introducing training for staff and elected members

- Develop an incident response and management plan, with clearly defined actions, roles and responsibilities
- Develop a communication plan in the event of an incident which includes notifying (for example) the relevant supervisory body, senior accountable individuals, the Departmental press office, the National Cyber Security Centre (NCSC), Government Security Group (Cabinet Office), the Information Commissioner's Office (ICO) or law enforcement as applicable (not exhaustive)
- Develop a network of sharing with other councils and customers, collaborate and learn from each other, harness networks such as London Office of Technology and Innovation, London CIO council, WARP, IGfL and ISfL.

REACT

STS will ensure that we have the sufficient controls in place to respond to an attack and furthermore have the organisational channels and processes to make efficient decisions further protecting our data and limiting any scope of an attacker.

We have third parties proactively monitoring our environment disabling any potential threats and locking down resources which are identified as a risk.

SUCCESS FACTORS

Throughout this period of challenging transformation, the councils have committed to delivering robust information security measures to protect our data from misuse and cyber threats, and to safeguard their privacy through increasingly secure and modern information governance and data sharing arrangements both internally and with partners.

To continue to provide assurance on the effectiveness and robustness of STS's arrangements for IT security, we will:

- Develop appropriate cyber security governance processes
- Develop a Cyber Risk Management Framework
- Develop policies/procedures to review access on a regular basis
- Create a cyber-specific Business Continuity Management Plan and/or Incident Plan to include emergency planning for cyber attack
- Develop an incident response and management plan, with clearly defined actions, roles and responsibilities. A copy of all incidents shall be recorded regardless of the need to report them
- Set up a Playbook to have test incidents on a regular basis; to ensure reaction to incidents where an incident is triggered
- Create standard test plans with security testing as a standard
- Reconcile current systems in place and last times these were reviewed (build into Enterprise Architecture)
- Review vendor management – process of assessments of third parties
- Explore Active Cyber Defence tools and new technologies to ensure partners have the best solutions to match to threats
- Apply the governments cyber security guidance – 10 Steps to Cyber Security
- Provide relevant cyber security training for staff and elected members
- Apply a regular schedule of cyber exercises, within the wider cycle of multi-agency incident response and recovery exercises

- Comply with the Governments Public Sector Network (PSN) Code of Connection and Payment Card Industry (PCI) standards; a minimum requirement for all systems used, audit trails, deletion of data etc.
- Protect enterprise technology by working with specialist partners to develop model architecture and review audit logs to reduce chances of threats

ROLES AND RESPONSIBILITIES

Information Governance and Policy will remain the responsibility of the councils and customers and the Shared Service will work with those teams to ensure that shared understanding and collaboration is met.

Effective cyber security governance in STS is delivered through the following roles and functions.

Senior Information Risk Owner (SIRO)

A nominated Senior Information Risk Owner (SIRO) is responsible for the governance of cyber security and information risk within the Council. This includes ensuring that information governance risk is managed in accordance with GDPR.

However, whilst the SIRO is the nominated officer, responsibility for safeguarding information and information systems is shared across the organisation with all staff having a role to play.

Joint Committee (JC)

The Joint Committee is made up of the lead councillors for IT. The Joint Committee will sponsor the Cyber Security Strategy and oversee the strategic framework through which the council governs its information resources and in turn agree and receive updates on implementation of the Cyber Security Strategy.

Joint Management Board (JMB)

The Joint Management Board is responsible for the strategic direction of the shared service and is made up of the executive directors from each council and the Managing Director of the shared service. This board is responsible for holding the shared service to account on the delivery of its obligations in turn the protection of its data and systems.

Operational Management Board (OMB)

The Operational Management Board is responsible for the day-to-day tracking of tasks and deliverables, this board will allocate resources and funds necessary to deliver the protection to the councils and its customers. The board is made up of Heads of IT from each council and the Senior Leadership Team of the shared service.

Information Governance Group (IGG)

The IGG is comprised of senior representatives from each council area. The group are responsible for overseeing the delivery of the Cyber Security Strategy and monitoring its effectiveness.

Technical Design Authority (TDA)


The Technical Design Authority (TDA) make decisions regarding technical implementations for projects. This includes ensuring that cyber security implications are properly considered.

Information Asset Owners (IAO)

Information Asset Owners are responsible for all processing of personal data within their business area.

All council officers

It is the responsibility of all officers to comply with the standards set out in this Cyber Security Strategy

 Brent	Audit and Standards Advisory Committee 7 December 2021
	Report from: Director of Finance
CIPFA Financial Management Code and Redman Review – Progress Report	

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Three: Appendix 1: Current Compliance with Financial Management Standards Appendix 2: CIPFA FM Code Workstream Summary Appendix 3: High Level Timeline
Background Papers:	Financial Management Code (CIPFA) Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (MHCLG)
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Ravinder Jassar, Deputy Director of Finance Tel: 020 8937 1487 Ravinder.jassar@brent.gov.uk Francis Austin, Financial Consultant Tel: 020 8937 2086 Francis.austin@brent.gov.uk

1.0 Purpose of the Report

- 1.1 This report is to update the Committee on progress to implement the CIPFA Financial Management Code and the Redmond Review of Audit and Transparency in Local Authority Financial Reporting.

2.0 Recommendations

2.1 That the:

- a) Audit and Standards Advisory Committee consider and note the contents of the report and note that no recommendations are being made for the Audit and Standards Committee to approve.

3.0 Summary

- 3.1 Implementation of the CIPFA FM Code is a major programme of work that Brent is obliged to undertake. Much work has already been done and Brent is in a sound position. However, to implement the FM Code fully would require a substantial number of further tasks to be completed over a protracted period of time – 18 months being a reasonable estimate from start to finish. As a structured programme of work it will greatly benefit from the application of project management techniques. Whilst this will have a cost, the savings in time and the improvement in the quality and focus of the work are considerable and worthwhile benefits.
- 3.2 The programme is at the point where the initial assessment of the work required is complete. Priorities now need to be agreed taking into account resourcing implications. The project should move to the delivery phase after Christmas with quick wins delivered by the end of March 2022 and the remainder of the workstreams targeted to finish in December 2022 at the latest. Three months for closing the project and handing over to business as usual by end of March 2023 complete the 18 month project timeline which started in October 2021. The programme is currently on target to deliver to this timeline.

4.0 Detail

Introduction

- 4.1 Brent is required to have in place detailed plans to implement the CIPFA Financial Management Code by the end of the 2021/22 financial year. This report sets out current progress, the recommended approach and the next steps to implement the FM Code.

Background – CIPFA FM Code and Redman Review

- 4.2 Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable. The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities.
- 4.3 The FM Code has several components, including the CIPFA Statement of Principles of Good Financial Management. These six principles are the benchmarks against which all financial management should be judged. To enable authorities to test their conformity with the six principles, the FM Code translates these principles into financial management standards (FMS), which

form the essence of what needs to be implemented. The current position at Brent for the six principles and the 17 FMS is shown in Appendix 1.

- 4.4 In September 2020, Sir Tony Redmond reported to the Government the recommendations of his review of the oversight of local audit and the transparency of local authority financial reporting. The latter part of his investigation is most pertinent here. Whilst his recommendations for a simplification of local authority accounts, in particular by including a service based outturn statement, have been accepted by CIPFA, no proposed changes to the *Code of Practice on Local Authority Accounting* have been tabled. The position is therefore that Brent cannot implement the recommendations of the Redmond Review at present, as a decision by CIPFA is needed on what is required, but it also will not do anything that will undermine implementation of the Redmond recommendations. Any preparatory work that aligns the Redmond recommendations with the FM Code will form part of that project.

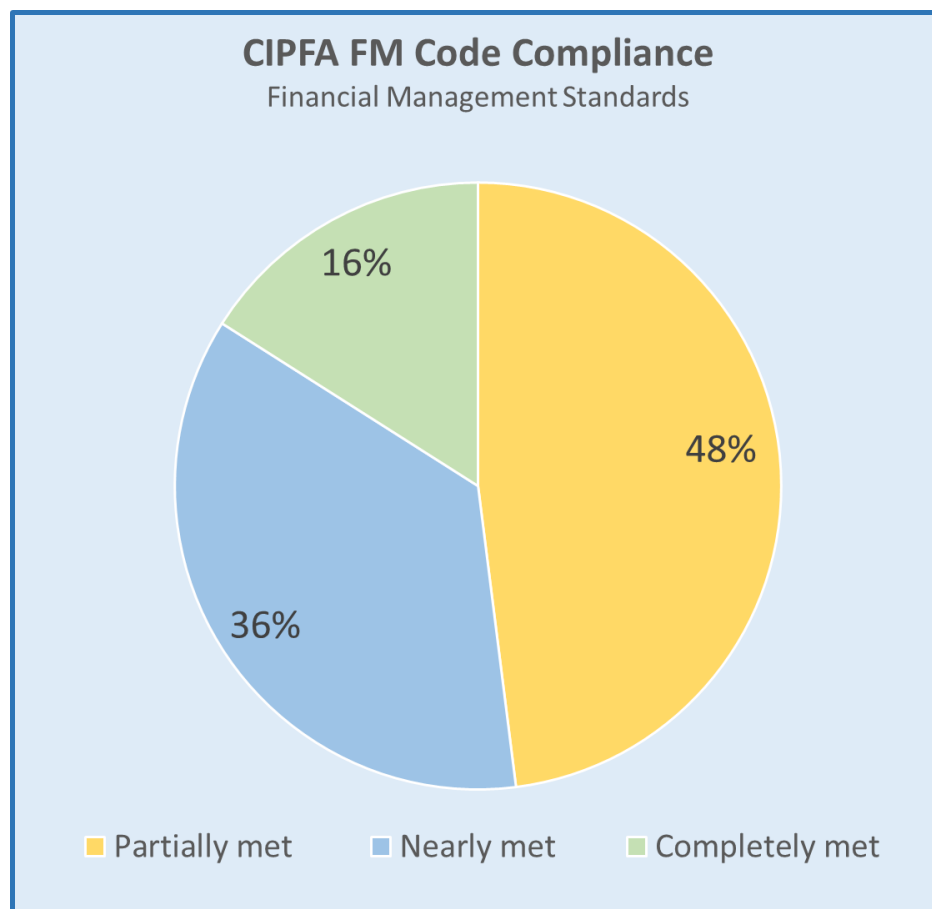
Vision – What will Brent gain from this?

- 4.5 It is important to recognise that while complying with the FM Code is a requirement, merely aiming at compliance would be to miss the opportunities that implementing the FM Code will afford Brent. CIPFA have set out to link various existing codes of practice and guidance notes into a coherent model for effective financial management. This has two main strands: a joined up long-term financial planning process backed by good governance. Implementation of the FM Code will provide Brent with the chance to put in place cutting edge financial management arrangements that will drive value for money and provide assurance on long term financial sustainability. This will provide sound foundations on which members can build their policy objectives assured by the knowledge that those proposals are affordable and sustainable both now and into the future. This assurance coupled with effective risk management to mitigate issues as they emerge means that Brent can plan for the future in a way that is ambitious and prudent, cost effective and sustainable.
- 4.6 When considering how to get the best out of the FM Code implementation, the following key questions need to be answered:
- Do we have to implement this?
 - If so, what room is there for improvement on the current arrangement?
 - If not, will implementation bring a worthwhile benefit to Brent?
 - Can we define the point at which additional costs cease to deliver commensurate benefits?
 - Do the minimum?
 - Do the maximum?
 - Is this item consistent with Brent's priorities?
 - What priority should this be given in the programme?

Progress to Date - Workstreams Summary

- 4.7 The FM Code defines seven workstreams. An overview of the current position for each is set out in Appendix 2. The analysis looks at current levels of compliance, risks and priorities. It is important to note that items flagged as red do not indicate a deficiency in the sense of something that should have been done, but has not been done. Instead it shows something that needs doing. This arises as the FM code combines existing requirements, such as adhering to the *Code of Practice on Local Authority Accounting* with new activities, such as undertaking a formal Financial Resilience Assessment. The analysis of the current position shows where there are already statutory or professional requirements, Brent is in full compliance; however, where CIPFA has introduced a new requirement, existing activities are at best partially compliant and require tailoring to satisfy the FM Code.
- 4.8 Some of the work required is about documenting existing arrangements to demonstrate that what is already in place meets the FM Code requirements. Part of this work type will be to look for improvements. There is however a more substantial work type which involves developing wholly new processes and procedures to introduce a longer term planning process focused on ensuring financial sustainability. The following graph reflects the current position:

Graph 1 – Current Levels of Compliance with FM Code Requirements



- 4.9 A detailed Action Plan has been produced which maps to the lowest level the tasks that must be completed to deliver in full each element of the FM Code. This plan takes account of the current position at Brent. As a result fewer resources are targeted at areas where there is already broad compliance. The following table illustrates the actions, inputs and outputs required to implement the FM Code in full. [In the table, 'documents' are existing codes of practice or guidance notes which need to be taken into account, 'artefacts' are finished end products such as revised guidance on securing value for money, and 'deliverables' are intermediate stepping stones to the final product, which will have some benefit of their own right.]

Table 1 – Workstream Activity, Input and Output Analysis

Workstream	Activity Average %	Inputs		Outputs	
		Days	Documents	Artefacts	Deliverables
1 CFO	5%	48	6	8	19
2 Governance	6%	77	13	7	19
3 MTFS	42%	358	51	34	31
4 Budget	9%	91	11	7	7
5 Stakeholders	6%	46	3	2	14
6 Performance	13%	104	8	2	12
7 Reporting	5%	44	10	2	4
8 Project Management	13%	176	-	-	-
Total	100%	944	102	62	106

Progress to Date – Overall Programme

- 4.10 The initial analysis indicates that delivery of the programme requires completion of a substantial number of tasks. It is estimated that over 900 days of work would require four and a half FTE staff for a one-year programme or three FTEs for an 18-month programme. This is therefore a major programme of works.
- 4.11 It is worth noting that the requirement to implement the FM Code by 31 March 2022 means that a detailed plan for the workstreams needs be in place, but not all aspects need to be fully implemented, at that point.
- 4.12 It is recommended that the compliance type work and any other work which will be subject to external audit as part of the 2021-22 accounts should be targeted as a quick win to be delivered in full by 31 March 2022 if possible.
- 4.13 The new process work, which revolves around creating and embedding a longer term financial planning framework, is best undertaken over a longer time frame as this will enable the work to run in parallel with the different activities that take place during the year. This is particularly helpful where this work has at its heart the cycle of the financial year which starts with setting the budget and medium/long term financial plans, through monitoring financial and service performance during the year to reaching year end and the accounts with the outturn reporting, which in turn informs the following year's budget.

- 4.14 To date the work on the FM Code has focused on planning the work to ensure that it addresses the following issues:
- Demonstrable end product that can be measured against success criteria
 - Keep the focus on what is best for Brent
 - Avoid scope creep – clear, defined, specific, limited objectives
 - Deliver tangible worthwhile benefits rather than box-ticking compliance
 - Embrace clichés: ‘Don’t fix what isn’t broken’ and ‘Keep it simple’
 - Take on board the lessons learnt from the Oracle Cloud/AIMS projects
 - Optimise resourcing, balancing need for the time of existing staff working on BAU with the use of consultants
 - Maximum benefits for minimum cost
 - Ensure that timescales and critical path are realistic and deliverable
 - Promote organisational buy-in/embed cultural change – listen and react
 - Promote continuous improvement
- 4.15 The current position is that the detailed Action Plan identifies the tasks that need to be completed in each area. These tasks have been assigned indicative durations, but they have not been allocated resources or put on to a time line. This is the last major piece of work required before the delivery phase of the project can commence.
- 4.16 As part of this work, dependencies will need to be identified as they are required to sequence the work. Milestones and check points should be defined as they provide an objective measure of performance against the project plan.
- 4.17 Once this activity is complete, work on the delivery phase can begin. Formal project documentation, such as the Project Initiation Document (PID) and the Programme/Project Plan can be put together whilst work on the individual workstreams is underway. Implementing a formal project management methodology will not impede progress on making a start at project delivery.

Recommended Approach

- 4.18 The recommended approach set out below aims to garner the maximum benefit for Brent without creating a cottage industry around implementing the FM Code.
- **Governance Arrangements** - The governance arrangements are an area where a formal project management approach will ensure that the programme is monitored and managed in such a way that it delivers what Brent really wants and needs rather than some theoretically pure solution that is an abstract and detached concept enjoying little or no user buy-in.
 - **High-Level Timeline** – A high-level timeline (Appendix 3) has been produced indicating target end dates for each workstream. This will need to be revised once priorities and resourcing are finalised.
 - **Detailed Action Plan** – an initial Action Plan has been produced based on the FM Code’s requirements applied to Brent’s current arrangements for financial management. This needs to be updated once resourcing is finalised.

- **Success Criteria, Milestones and Checkpoints** need to be built into the Action Plan and reflected on the High-Level Timeline. Together these documents will form the kernel of the PID and project plan for the programme.

Next Steps

- ✓ Agree and deliver quick wins by 31 March 2022
- ✓ Contribute to internal Audit of FM Code Implementation programme
- ✓ Liaise with the External Auditors on their working relating to the FM Code
- ✓ Produce detailed plans for the remainder of the FM Code work
- ✓ Report progress to the meeting of this committee in March 2022.

5.0 Financial Implications

4.1 The financial implications are contained within the body of this report.

6.0 Legal Implications

5.1 There are no legal implications arising out of this report.

7.0 Equality Implications

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

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

8.0 Human Resources/Property Implications (if appropriate)

8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

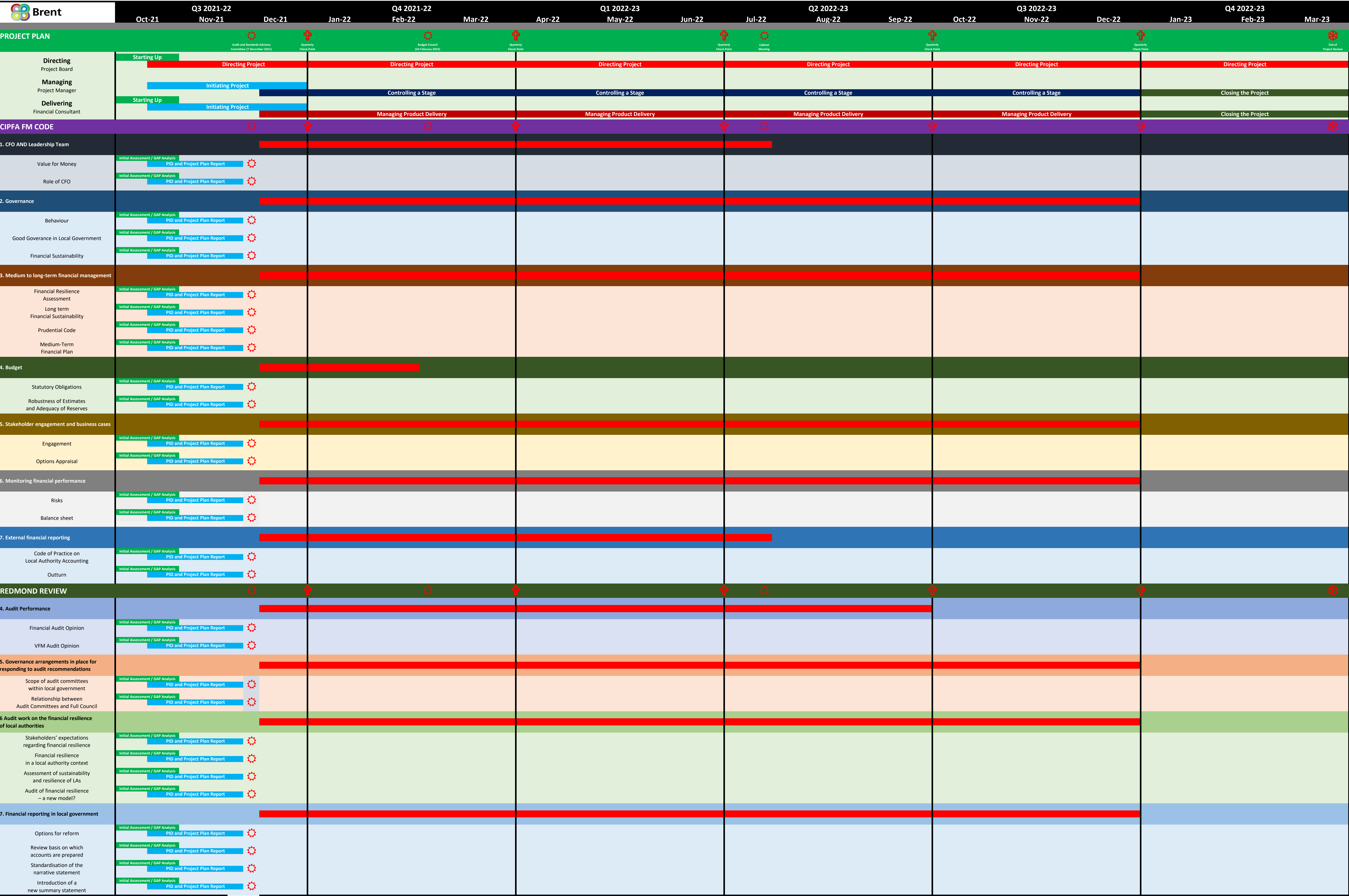
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FINANCIAL MANAGEMENT CODE	FMS REF	Leadership	Accountability	Transparency	Standards	Assurance	Sustainability
LB Brent Initial Self-Assessment (RAG Rating)		Demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture	Financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs	Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making	Adherence to professional standards is promoted by the leadership team and is evidenced.	Sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection	The long term sustainability of local services is at the heart of all financial management rocesses and is evidenced by prudent use of public resources
Section 1: The responsibilities of the chief finance officer and leadership team	A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.					
	B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.					
Section 2: Governance and financial management style	C					The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	
	D		The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).				
	E						The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-term financial management	F					The authority has carried out a credible and transparent financial resilience assessment.	
	G						The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
	H				The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.		
	I						The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
Section 4: The annual budget	J				The authority complies with its statutory obligations in respect of the budget setting process.		
	K						
Section 5: Stakeholder engagement and business plans	L			The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.			
	M						
Section 6: Monitoring financial performance	N					The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	
	O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.					
Section 7: External financial reporting	P		The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.				
	Q		The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.				


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Workstream	Purpose	Benefits	End Products	Type of Work	Percentage Actions and Days	Compliance	Risks Impact	Likelihood	Priority
1 CFO	Review Value for Money framework and Role of Chief Finance Officer Review Finance Team to ensure that it is fit for purpose	Improvements to the economy, efficiency and effectiveness of service procurement and provision Consideration of Equity as part of VfM	New Value for Money framework Compliance with CIPFA CFO requirements Fit for purpose Finance team	This is a review and Improve project with elements of compliance	5%	Partially Met	Medium	Medium	High
2 Governance	Review of governance arrangements to gain trust in application of internal controls and to ensure financial management style supports financial sustainability	Improved decision making with greater transparency Builds trust amongst key stakeholders Lessens risk of legal challenge	Financial management style geared towards financial sustainability Improved Local Governance Code	This is a review and improve project with elements of compliance	7%	Nearly Met	Medium	Low	Low
3 MTFS	Creation of Financial Resilience Assessment Integration of financial resilience into authority's strategic plan Affordable, prudent and sustainable capital investment Translation of the long-term financial strategy into medium-term financial plan	New FRA tool to assess financial sustainability as part of long-term planning framework Prudent capital investment strategy linked to revenue plans Long-term financial strategy and improved medium term financial planning	New long-term financial planning framework supported by revised MTFS and Prudential Indicators New cycle of financial year which links budget setting, budget monitoring and outturn reporting into a coherent long term financial strategy	This creates a number of new processes while reviewing and improving existing processes	41%	Partially Met	Medium	Medium	High
4 Budget	Review budget setting arrangements to ensure compliance with statutory obligations	Besides compliance, this review will contribute to new long-term planning framework and financial sustainability	Reserves policy, revised s25 report on robustness of estimates and adequacy of reserves	This is a review and improve project with elements of compliance	9%	Nearly Met	Medium	Low	Medium
5 Stakeholders	Improve process for engaging with stakeholders in effective consultation to set the authority's financial and services priorities Option appraisal methodology to demonstrate Value for Money	Better understanding of stakeholder views and reduced risk of legal challenge	Improved stakeholder engagement process. New options Appraisal framework	This is a review and improve project	6%	Partially Met	Medium	Medium	Medium
6 Performance	Identify and correct emerging risks to budget strategy and long term financial sustainability To create an environment within which effective management of the balance sheet is promoted and valued	Risk management and the monitoring of balance sheet are essential parts of the new financial framework which provides assurance on financial sustainability	Improved risk management framework and periodic balance sheet monitoring to inform the financial planning process	This creates a number of new processes while reviewing and improving existing processes	12%	Nearly Met	Medium	Medium	High
7 Reporting	Compliance with principles and practices of accounting that are required to give a 'true and fair' view of the authority's financial position Outturn Report facilitates strategic financial decisions	The Outturn Report is tailored to ensure it informs of the financial planning process with past data whilst enabling members to make informed decisions	Revised outturn report closely align with its target outputs. Demonstrable compliance with Code of Practice on Local Authority Accounting.	This is a review and improve project	5%	Completely Met	Medium	Medium	Medium
8 Project Management	This is the framework that holds the programme together and ensures that the objectives are met in a timely and controlled manner.	A project management approach will put vigour into the planning, resourcing, monitoring and reporting process	Completion of workstream objectives to the requisite quality, on budget and within agreed timeframes	Project management support	15%	Partially Met	Medium	High	High



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	Audit & Standards Advisory Committee 7 December 2020
	Report from the Director of Finance
TREASURY MANAGEMENT MID-YEAR REPORT 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:	One Appendix 1: Treasury Management Indicators
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Amanda Healy Head of Finance Email: amanda.healy@brent.gov.uk Tel: 020 8937 5912 Homun Bui Senior Finance Analyst Email: Homun.Bui@brent.gov.uk Tel: 020 8937 3745

1.0 Purpose of the Report

- 1.1 This report updates Members on treasury activity for the first half of the financial year 2021-22.

2.0 Recommendation(s)

- 2.1 The Committee is asked to note the 2021-22 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 this authority 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 economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.
- 3.6 The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £895 billion. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent.
- 3.7 Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation.
- 3.8 Government initiatives continued to support the economy through the first half of the financial year but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.
- 3.9 In the three months to July, the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of

the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

- 3.10 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.
- 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 The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10 year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.
- 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-21	Jun-21	Sep-21	Period Low	Period High
1 year	0.98	1.03	1.10	0.95	1.18
5 year	1.36	1.38	1.43	1.25	1.62
10 year	1.85	1.86	1.80	1.59	2.01
20 Year	2.29	2.28	2.15	1.93	2.44
30 year	2.33	2.30	2.14	1.92	2.46

Debt Management

- 3.14 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Councils that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.
- 3.15 Competitive market alternatives may be available for Councils with or without access to the PWLB. However, the financial strength of the individual Council and borrowing purpose will be scrutinised by commercial lenders. Further

changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

- 3.16 The settlement time for a PWLB loan has been extended from two working days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.
- 3.17 The Infrastructure Bank which is wholly owned and backed by HM Treasury has earmarked £4bn for lending to local authorities. The availability of this lending, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate
- 3.18 The Municipal Bonds Agency (MBA) is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

The table below demonstrates no new long term loans have been raised so far this year:

	Balance on 01/04/2021 £m	Debt repaid* £m	New Borrowing £m	Balance on 30/09/2021 £m
Short Term Borrowing	117.0	70.0	10.0	57.0
Long Term Borrowing	542.1	6.6	0.0	535.5
TOTAL BORROWING	659.1	76.6	10.0	592.5
Average Rate of Borrowing %	3.3%	0.3%	0.3%	3.6%

** £91.1m of the PWLB loans are referred to as EIP, whereby the Councils 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 1.79% and the short-term borrowing had an average interest rate of 0.20% compared with the rest of the debt, which is 5.13%.*

- 3.19 The Council's main 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.
- 3.20 In keeping with these objectives, new external borrowing was kept to a minimum of £10m 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.

- 3.21 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 of £60m will be required during 2021/22.
- 3.22 PWLB funding margins have remained relatively low in the first half of 21/22, there has been no evidence that lower rates can be achieved through alternative sources of funding. Given the low rates of borrowing, the Council will also consider forward funded deals in order to secure low rates. The Council will continue to monitor alternative sources of funding and pursue the lower cost solutions and opportunities as they arise. 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.
- 3.23 The persistence of low interest rates (see para 3.13) means that it would be uneconomic to reschedule PWLB debt, because early repayment 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 higher levels.
- 3.24 The Authority 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 as 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.

Treasury Investment Activity

- 3.25 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 £152.9m and £42.5m due to timing differences between income and expenditure.
- 3.26 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.
- 3.27 The Council's investment position is shown in the table below.

	Balance on 01/04/2021 £m	Investments Repaid £m	Investments Made £m	Balance on 30/09/2021 £m
Debt Management Account Deposit Facility	0.0	0.0	0.0	0.0
Money Market Funds	82.7	331.3	314.3	65.7
TOTAL INVESTMENTS	82.7	331.3	314.3	65.7
Average Rate of Investments	0.01%	0.01%	0.02%	0.02%

- 3.28 The Council held most of its cash in Money Market Funds. 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 0.3%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.
- 3.29 On 30th September the overnight deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.015% due to a fall in the Q3 Gilt markets. The rate was 0.01% for all other longer maturities. All rates returned to 0.01% the following day. The Council did not incur any negative interest rate during the first half of 2021/22.
- 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 £17m 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 2021/22. 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 (0.3%)	Bonds (1.0%)	Equities (4.0%)	Property (3.25%)
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, investments in Equities and Property classes tend to be considered over a longer time frame, which are not currently 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 - that is the council having 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.

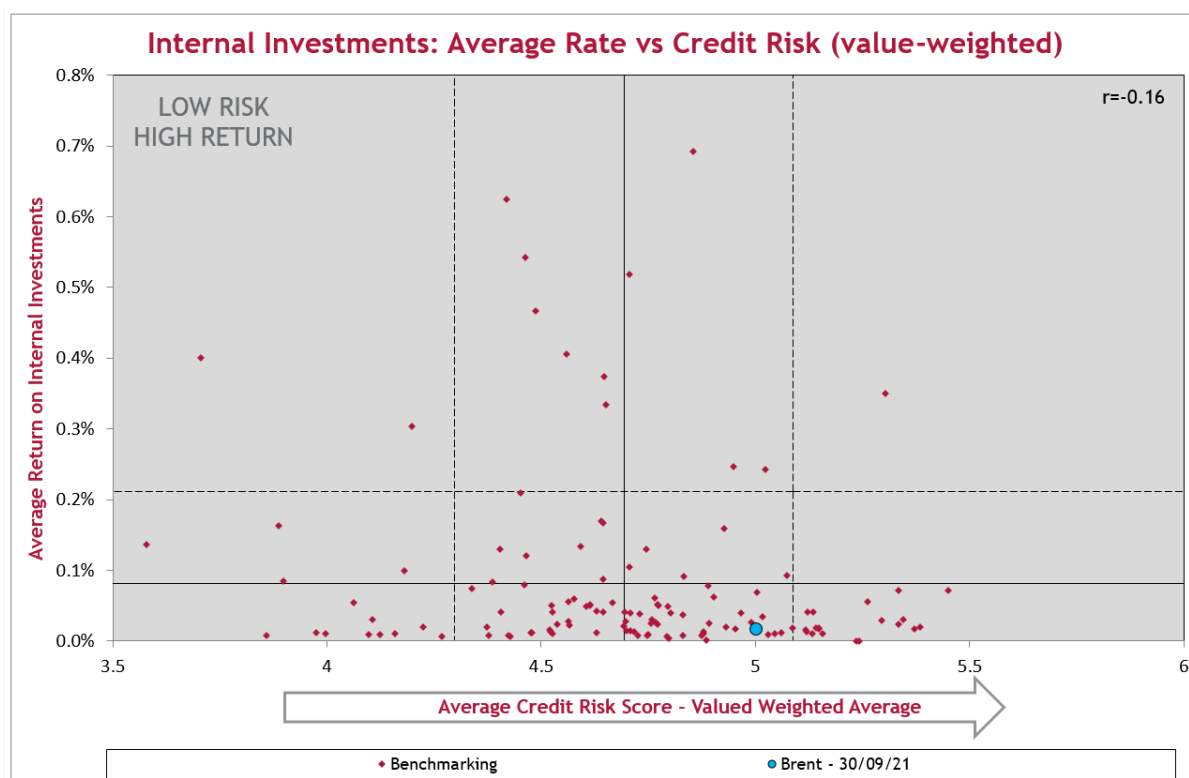
Mitigation – see Prudential Indicator 1 – Appendix 1

- 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 left of Brent, obtaining similar yields for much higher risk.



- 3.37 A credit rating of 4 is equivalent to credit score of AA-. The Council has a target rating of A which is a rating of 6. The current portfolio has a credit rating of A+ (Credit score 5) which exceeds our target rating.

Budgeted Income And Outturn

- 3.38 The Council's external interest budget for the year is £23.6m, and for investment income is £6.6m. The average cash balances, representing the Council's reserves and working balances, were £107m during the period to 30 September 2021. The Council expects to receive significantly lower income from its cash and short-dated money market investments than it did in 2020/21 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.

Compliance

- 3.39 Officers confirm that they have complied with its Treasury Management Indicators for 2021/22, which were set in February 2021 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 activity during the first half of 2021/22. 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.

Related Documents:

Treasury Management Strategy – Report to Full Council as part of the Budget Report – February 2021.

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	£20m	£66m

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	Achieved
Upper limit on one-year revenue impact of a 1% rise in interest rates	£5m	£0.1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5m	£0.1m

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:

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing as at 30/09/21	% Fixed Rate Borrowing as at 30/09/21	Compliance with Set Limits?
	%	%	£m		
Under 12 months	40	0	53.0	9%	Yes
12 months and within 24 months	40	0	5.0	1%	Yes
24 months and within 5 years	40	0	0.0	0%	Yes
5 years and within 10 years	60	0	0.0	0%	Yes
10 years and within 20 years	75	0	148.4	25%	Yes
20 years and within 30 years	75	0	101.9	17%	Yes
30 years and within 40 years	75	0	223.7	38%	Yes
Over 40 years	75	0	60.50	10%	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:

Principal sums invested for periods longer than a year:	Principal invested beyond 21/22 year end	Principal invested beyond 22/23 year end	Principal invested beyond 23/24 year end
Limit	£50m	£50m	£50m
Actual sums invested for longer than a year	£0	£0	£0

 Brent	AUDIT & STANDARDS ADVISORY COMMITTEE 7 December 2021
	Report from the Director of Finance
TREASURY MANAGEMENT STRATEGY 2022/23	

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:	One Appendix 1: Draft Treasury Management Strategy 2022/23
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Amanda Healy Head of Finance 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 2022/23 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 7 February 2022.

2.0 Recommendation(s)

- 2.1 That the Audit and Standards Advisory Committee considers and comments on the draft Treasury Management Strategy 2022/23 included in Appendix 1.

3.0 Detail

- 3.1 The Strategy sets out the framework for Treasury Management activity in 2022/23 and includes details on:

- Borrowing Strategy and sources of debt finance
- Investment Strategy, investment types and prescribed limits
- Treasury Management Indicators for 2022/23
- 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 2022/23, 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 7 February 2022.

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

Appendix 1 - Draft Treasury Management Strategy Statement 2022/23

£X.X - Data to be added once available (31/12/2021)

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 ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.
- 4.0 The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted to keep rates on hold and maintain the asset purchase programme.
- 5.0 The MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Consumer price index (CPI) inflation is expected to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.
- 6.0 UK CPI for September 2021 registered 3.1% year on year (previous month, 3.2%). Core inflation, which excludes the more volatile components, fell to 2.9% year on year from 3.1%.
- 7.0 For the three months to August 2021, unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme that ended in September 2021. While this may put some pressure on the jobs market, it is not expected to be material. The BoE forecasts unemployment will only increase modestly in Q4 2021 and is expected remain low overall.

- 8.0 In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as pay growth is now being impacted by base effects compared to 12 months ago when earnings were first affected by the coronavirus pandemic. Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.
- 9.0 Gross domestic product (GDP) grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% q/q in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. The BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.
- 10.0 GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

Credit outlook

- 11.0 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.
- 12.0 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.
- 13.0 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast

- 14.0 The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.
- 15.0 Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks shift towards the downside.
- 16.0 Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.
- 17.0 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.
- 18.0 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.1%, and that new long-term loans will be borrowed at an average rate of 2.2%.

Local Context

- 19.0 On 31st December 2021, 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	Actual	Forecast		
	31.3.21	31.3.22	31.3.23	31.3.24
General Fund CFR	670.1	736.8	780.1	817.7
HRA CFR	245.1	263.8	287.5	291.3
Total CFR	915.3	1,000.6	1,067.6	1,109.0
Existing Borrowing	(659.1)	(629.6)	(555.2)	(548.3)
Borrowing required to meet CFR	256.1	371.1	512.4	560.8
Projected Usable Reserves	443.4	396.8	396.8	396.8

Projected Working Capital	(37.9)	(37.9)	(37.9)	(37.9)
Available Cash Reserves	405.5	358.9	358.9	358.9

Investments (or New borrowing)	149.4	(12.2)	(153.5)	(201.9)
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20.0 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 to fund the capital programme. The Council will need to borrow up to £201.9m over the forecast period.

21.0 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 2022/23.

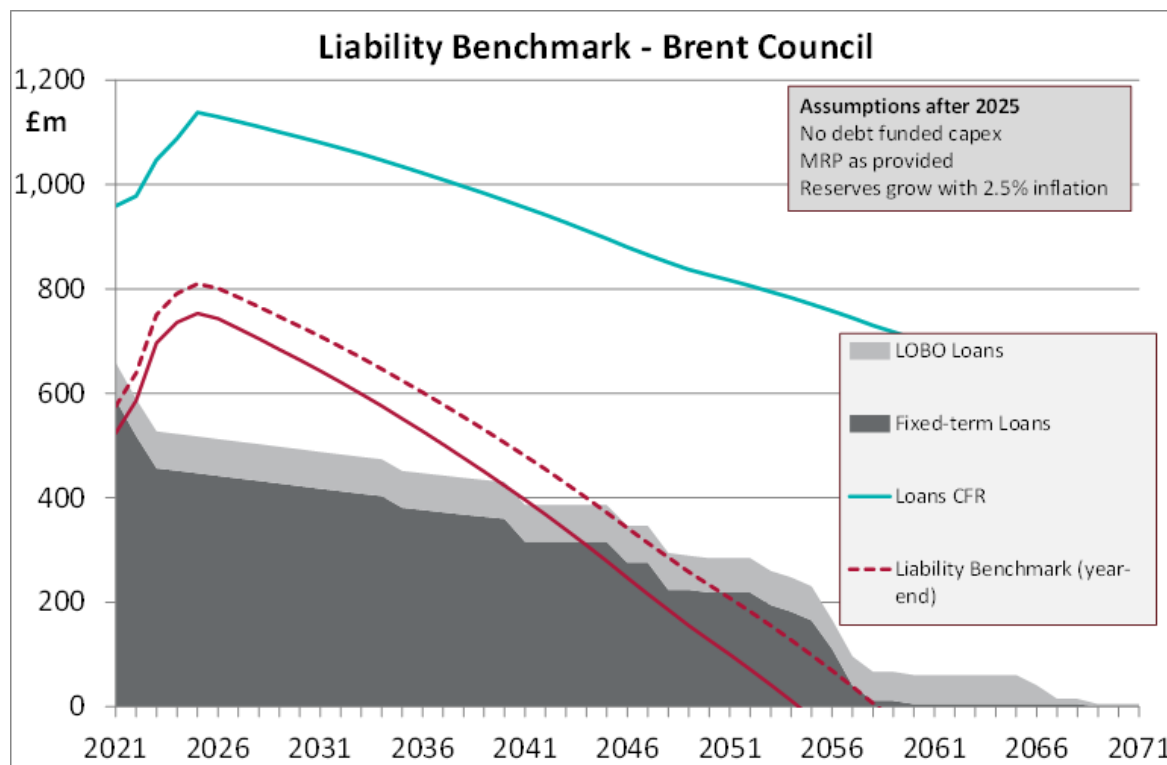
Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.21	31.3.22	31.3.23	31.3.24
	£m	£m	£m	£m
Total CFR	915.3	1,000.6	1,067.6	1,109.0
Less: Balance sheet resources	(405.5)	(358.9)	(358.9)	(358.9)
Net loans requirement	509.8	641.7	708.7	750.1
Plus: Liquidity allowance	20.0	20.0	20.0	20.0
Liability benchmark	529.8	661.7	728.7	770.1

- 22.0 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes minimum revenue provision on new capital expenditure based on a 10 - 60 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below:



- 23.0 The Loan CFR (Blue lines) represents the need to fund capital expenditure through borrowing. The Liability benchmark (Red Lines) represents the level of borrowing requirement once reserves and working capital has been taken into account. Where the liability benchmark exceeds the Council's current borrowing levels (Grey area), this indicates the real need to borrow.

Borrowing Strategy

- 24.0 The Council currently holds £X.X million of loans, an increase of £X.X (Last year £659.1m) 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 £246.9m by 2022/23 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 £1.2 billion.
- 25.0 **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.

- 26.0 **Strategy:** 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.
- 27.0 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.
- 28.0 In order to ensure long term stability of the debt portfolio, a proportion of the portfolio will be funded by long term borrowing. 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 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 29.0 **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
- 30.0 **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
- 31.0 The Council has previously raised the majority of its long term borrowing from the PWLB and will continue to do so in 22/23 due to the low interest rates available. The Council will also consider the arrangement of 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.

- 32.0 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council will no longer be undertaking these activities to retain access to PWLB loans.
- 33.0 In addition to above, the Council may borrow short-term loans to cover temporary cash flow pressures from other Local Authorities.
- 34.0 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to members.
- 35.0 **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. £45.5m of these LOBOs have options during 2022/23, 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.
- 36.0 **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 69 below).
- 37.0 **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

- 38.0 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 for the remainder of the year with cash available to invest for relatively short periods.
- 39.0 **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.
- 40.0 **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.
- 41.0 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council continue to monitor higher yielding asset classes during 2022/23. This represents a continuation of the 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.
- 42.0 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 21 was X% with an average duration of 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.

- 43.0 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.
- 44.0 **Responsible Investment and Environmental, Social and Governance (ESG) considerations:** The Council announced a climate emergency in July 2019 and the Council wishes to develop an investment strategy to accommodate climate change considerations. When undertaking a long-term treasury investment, the Council will ensure ESG matters are reviewed as part of the investment due diligence. Following COP 26, the new International Sustainability Board is likely to bring about changes in future disclosure requirements on investments.
- 45.0 **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.
- 46.0 **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.
- 47.0 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.
- 48.0 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.

- 49.0 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).
- 50.0 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.
- 51.0 **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.
- 52.0 **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.
- 53.0 **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 2022/23.

- 54.0 **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.
- 55.0 **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.
- 56.0 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:

- 57.0 **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 2022/23.

- 58.0 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 2022/23.
- 59.0 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.
- 60.0 Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. 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.
- 61.0 Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be **£370 million** on 31st March 2022. 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	5 years

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

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.

- 62.0 **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

- 63.0 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 64.0 **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

- 65.0 **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

- 66.0 **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.

- 67.0 **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.

- 68.0 **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	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£50m	£50m	£50m

Related Matters

- 69.0 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 70.0 **Financial Derivatives:** A Derivative is a contract between two or more parties to hedge against the risk associated with the performance of an underlying asset. Local authorities have previously made use of financial derivatives embedded into its loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk.
- 71.0 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).
- 72.0 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.
- 73.0 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.
- 74.0 In line with the CIPFA Code, the Council will seek external advice and consult with Members before entering into financial derivatives to ensure that it fully understands the implications. This will include analysis of the impact on interest rate, refinancing, counterparty, market, regulatory and legal risks, together with an assessment on the effectiveness of the derivative.
- 75.0 **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.

- 76.0 **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.
- 77.0 **Financial Implications:** The draft capital financing budget of £23.6m for 2022/23 has been calculated based on the reduction in balances available for investment and the increased external borrowing required.
- 78.0 **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 October 2021

Underlying assumptions:

- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit
- While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support
- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher
- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.
- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure.
- Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets
- Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast
- The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market rate													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

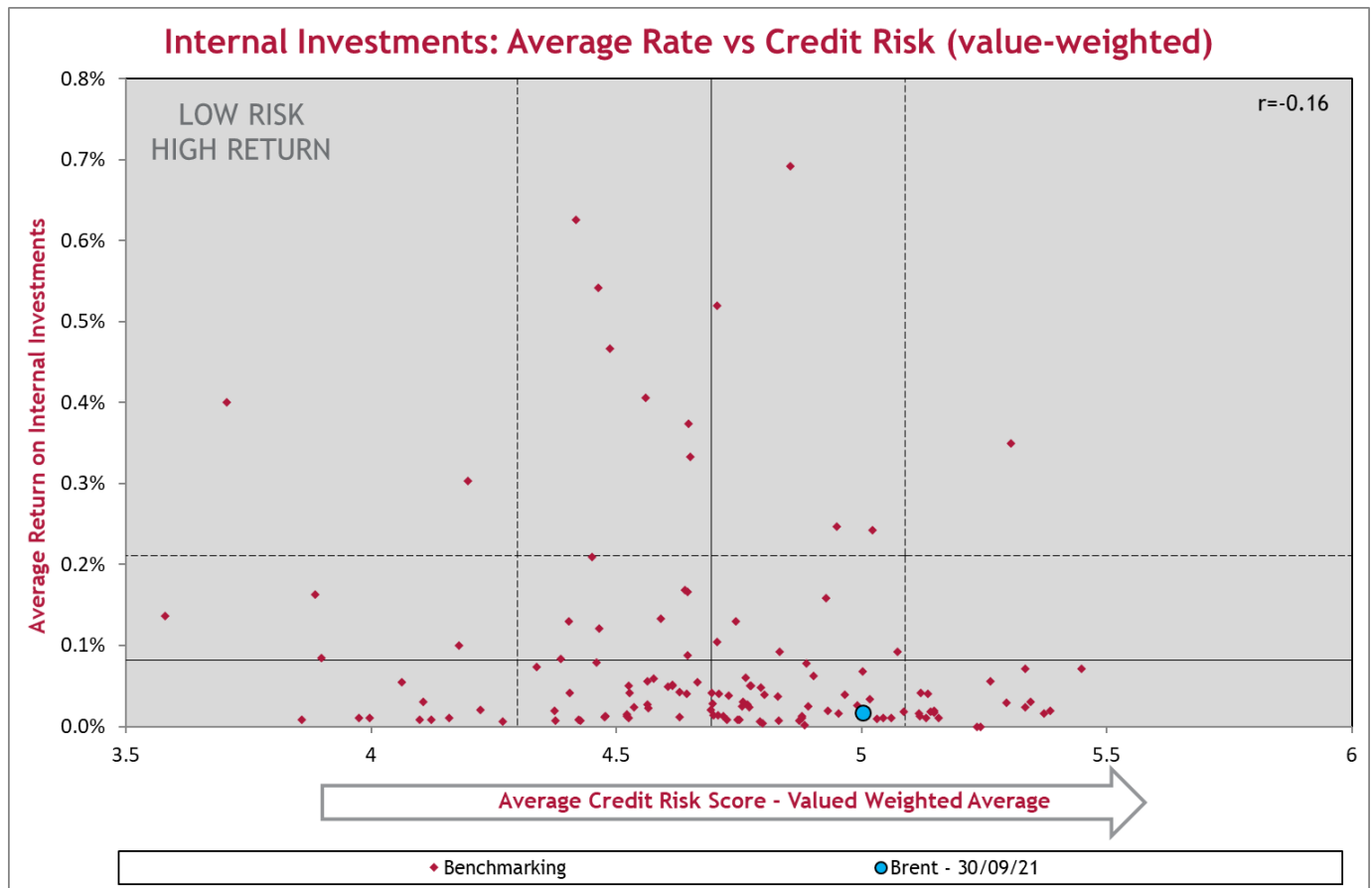
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

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

Appendix B - Existing Investment & Debt Portfolio Position


	31/12/1 Actual Portfolio £m	31/12/21 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



A credit rating of 4 is equivalent to credit score of AA-. The Council has a target rating of A which is a rating of 6. The current portfolio has a credit rating of A+ (Credit score 5) which exceeds our target rating.

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 Brent	Audit and Standards Advisory Committee 7 December 2021
	Report from the Director of Legal, HR, Audit and Investigations
Internal Audit Charter	

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One Appendix 1 – Internal Audit Charter
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Darren Armstrong, Head of Audit and Investigations Darren.Armstrong@Brent.gov.uk ; 020 8937 1751

1.0 Purpose of the Report

- 1.1 This report sets out the revised Internal Audit Charter, which has been appended to the report for consideration and approval.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) requires the purpose, authority and responsibility of the internal audit service to be formally defined in an Internal Audit Charter.
- 1.3 In accordance with best practice, the Council's Internal Audit Charter is reviewed and presented for approval every two years.

2.0 Recommendations

- 2.1 The Audit and Standards Advisory Committee consider and approve the revised Internal Audit Charter as set out in Appendix 1 of the report before adoption.

3.0 Revised Internal Audit Charter

- 3.1 An Internal Audit Charter is a key document that establishes the purpose and role of Internal Audit within the Council, and underpins the delivery of the annual audit plans. The Charter authorises Internal Audit to have full, free and unrestricted access to all functions, records, property and personnel pertinent to carrying out any audit engagement; and also defines the scope of Internal Audit activities
- 3.2 The Charter was last reviewed in 2019. As part of a planned periodic review, and in accordance with best practice, the Charter has been reviewed and modified to reflect updated standards and guidance. The Charter has also been aligned to the model template issued by the Institute of Internal Auditors (IIA).
- 3.3 The contents of the revised Charter, as seen at Appendix 1, remains largely consistent with the previous version. However the Charter has been re-structured to follow the 10 key headings as suggested by the IIA. Some key amendments have also been made:
- Separating and setting out the purpose and mission of the Internal Audit Service (section 3);
 - Further defining and referencing some of the mechanisms that are in place to maintain the independence and objectivity of the service (section 6);
 - Summarising the scope of internal audit activities and providing examples of how these may be carried out (section 7); and
 - Outlining Internal Audit's role and relationship with the Council's risk management and counter fraud arrangements (section 7).
- 3.4 Following approval, the Charter will be re-published and made available to all staff and auditees via the Council's Intranet pages.

4.0 Financial Implications

- 4.1 There are no financial implications.

5.0 Legal Implications

- 5.1 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and Accounts and Audit Regulations 2011 (as amended).

6.0 Equality Implications

- 6.1 There are no equality implications.

7.0 Proposed Consultation with Ward Members and Stakeholders

- 7.1 No consultation proposed.

Report sign off:

Debra Norman

Director of Legal, HR, Audit and Investigations

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Internal Audit Charter

November 2021

Contents

1. Introduction
2. Definitions
3. Purpose and Mission
4. Standards for the Professional Practice of Internal Auditing
5. Authority
6. Independence and Objectivity
7. Scope of Internal Audit Activities
8. Responsibility
9. Reporting and Monitoring
10. Quality Assurance and Improvement Programme

Appendix A – IIA Code of Ethics – Principles and Rules of Conduct

Appendix B – Nolan Principles of Standards in Public Life

1. Introduction

In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing).

The Charter is a formal document that establishes the position of Internal Audit within the Council; authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.

The Charter will be reviewed and presented to the Audit and Standards Advisory Committee for comment before approval every two years, or more frequently in response to changes in the Standards.

2. Definitions

The PSIAS requires that the terms 'Board' and 'Senior Management' are interpreted in the context of the governance arrangements for each organisation. For the purposes of this Charter, the following definitions apply:

The Board	<p>The governance group charged with independent assurance on the adequacy of the Council's governance, risk management and internal control environment (including the integrity of financial reporting).</p> <p>The term 'Board' refers to the Council's Audit and Standards Committee, which also meets as the Audit and Standards Advisory Committee with additional independent members.</p>
Senior Management	<p>Those responsible for the leadership and direction of the Council.</p> <p>This refers to the Council Management Team (CMT) and respective Department Management Teams (DMT).</p>

3. Purpose and Mission

The Chartered Institute of Public Finance and Accountancy (CIPFA) states that a professional, independent and objective internal audit function is one of the key elements of good governance in local government.

The **purpose** of the Council's Internal Audit function is to therefore provide independent, objective assurance and consulting services, via the Audit and Standards (Advisory) Committee, Chief Executive, Chief Financial Officer and senior management, in order to add value and improve operations.

The **mission** of the Internal Audit function is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight. Internal Audit helps the Council to accomplish its objectives by bringing a systemic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

The purpose and mission are achieved through providing a combination of risk based assurance and consulting activities. The assurance suite of work involves assessing how well the systems and processes are designed and operating in order to effectively mitigate risk, while consulting activities aid with the improvement in systems and processes where necessary.

The response of the Council to the activity of Internal Audit should also lead to the strengthening of governance arrangements and the control environment, and therefore, contribute to the achievement of strategic objectives.

It is important to note that Internal Audit is not responsible for designing and implementing control systems and managing risks. It is the responsibility of senior management to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements.

Statutory Requirements

The Council has a statutory duty to maintain an adequate and effective Internal Audit function in accordance with the proper Internal Audit practices of the Accounts and Audit Regulations (2015).

Section 151 of the Local Government Act 1972 also states that '*every local authority shall make arrangements for the proper administration of the financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. To this end, the CIPFA Statement of the Role of the Chief Financial Officer in Local Government also states that the Chief Financial Officer must:

- Ensure an effective Internal Audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for the Internal Audit of the control environment and systems of internal control, as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom;
- Support the authority's internal audit arrangements, and
- Ensure that the Audit and Standards (Advisory) Committee receives the necessary advice and information, so that both functions can operate effectively.

The relationship between the Head of Internal Audit (HIA) and the Chief Financial Officer (CFO) is therefore of particular importance. To this end, the HIA had direct access to the CFO (Director of Finance) and holds regular 1:1s where planned internal audit activities and outcomes are discussed and reviewed as appropriate.

4. Standards for the Professional Practice of Internal Auditing

The Internal Audit function adheres to the PSIAS, which encompass the mandatory elements of the IIA's IPPF, these being: the Core Principles for the Professional Practice of Internal Auditing, the Standard and the Definition of Internal Auditing; and the Code of Ethics (seen at Appendix A).

In addition, the following standards and codes of practice are also adhered to:

- CIPFA Role of the Head of Internal Audit in the Public Sector; and
- CIPFA Local Government Application Note

Internal Audit will also have due regard to the Seven Principles of Public Life (seen at Appendix B).

5. Authority

Internal Audit is responsible for providing assurance to its key stakeholders, including the Chief Executive, Chief Financial Officer, Senior Management and Audit and Standards (Advisory) Committee to assist them with discharging their statutory responsibilities.

The Head of Internal Audit reports functionally to the Audit and Standards (Advisory) Committee, and organisationally to the Council's Monitoring Officer (Director of Legal, Human Resources, Audit and Investigations).

The Monitoring Officer, in conjunction with the Chief Financial Officer, will provide the Head of Internal Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Internal Audit also has direct and unfettered access to the Chief Executive (who carries the responsibility for the management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements); and any other member of the Council's Senior Management Team.

Where it is considered necessary to the proper discharge of internal audit activity, the Head of Internal Audit will also have direct access to elected Members of the Council, and in particular, those who serve on the Audit and Standards (Advisory) Committee. The Head of Internal Audit will also communicate and interact directly with the Independent Chair of the Audit and Standards Committee in between Committee meetings, as deemed appropriate.

The Internal Audit function shall:

- Have full, free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
- Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete audit engagements.

Any officer obstructing the internal audit function may be subject to disciplinary action. Right of access to other bodies funded by the Council should be set out in the conditions of funding, and officers agreeing such conditions must ensure that such rights allow similarly unrestricted access.

Internal Audit will consider requests from the External Auditors for access to any information held by the service, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

Audit and Standards (Advisory) Committee

To establish, maintain and ensure that Internal Audit has sufficient authority to fulfil its duties, the Audit and Standards (Advisory) Committee will:

- Approve the Internal Audit Charter;
- Approve the risk-based Internal Audit Plan;
- Receive communications from the Head of Internal Audit on the performance of Internal Audit, related to its plan and other matters.

6. Independence and Objectivity

The Head of Internal Audit will ensure that Internal Audit remains free from conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year;
- Performing any operational duties for the Council or its affiliates;
- Initiating or approving transactions external to the Internal Audit function; and
- Directing the activities of any employee of the Council not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. The independence of the HIA is further safeguarded by ensuring that their annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chair of Audit and Standards Advisory Committee reviews the appraisal of the HIA. Furthermore, periodic Corporate Governance Meetings are held between the Chief Executive, Head of Internal Audit, Chief Financial Officer and Monitoring Officer to ensure that any governance issues remain high on the Council's agenda.

All staff within Internal Audit are required to make an annual 'declaration of interest' to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. In addition, Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the Head of Internal Audit and appropriate parties;
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- Make balanced assessments of all available and relevant facts and circumstances; and
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- Not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties;
- Not use information obtained during the course of duties for personal gain; and
- Ensure compliance with the Bribery Act 2010.

The Head of Internal Audit will confirm to the Audit and Standards (Advisory) Committee, at least annually, the organisational independence of Internal Audit. The Head of Internal Audit will also disclose to the Audit and Standards (Advisory) Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

7. Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit and Standards (Advisory) Committee and senior management on the

adequacy and effectiveness of the Council's governance, risk management, and control processes.

The Head of Internal Audit is also responsible for providing an annual audit opinion and report that can be used to inform the Annual Governance Statement. The annual opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and may be based on:

- A summary of internal audit work carried out for the relevant period;
- Follow-up on the implementation of recommendations;
- Any significant governance issues as reported within each Council's Annual Governance Statement;
- The annual review of the effectiveness of Internal Audit.

A range of Internal Audit services are provided to form the annual opinion. The approach is determined by the Head of Internal Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of those objectives, and the level of confidence required that controls are well designed and operating as intended.

Internal audit assessments may include evaluating whether:

- Risks relating to the achievement of strategic objectives are appropriately identified and managed;
- The actions of officers, directors, employees, and contractors are in compliance with Council policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programmes are consistent with established goals and objectives;
- Operations or programmes are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact on the Council;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Audit and Standards (Advisory) Committee regarding:

- Internal Audit's purpose, authority, and responsibility;
- Internal Audit's plan and performance relative to its plan;
- Internal Audit's conformance with The IIA's Code of Ethics and Standards and, where apt, action plans to address any significant conformance issues;

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit and Standards (Advisory) Committee;
- Results of audit engagements or other activities;
- Any response to risk by management that may be unacceptable to the Council.

The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Consultancy and Advisory Services

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate. It may also evaluate specific operations at the request of the Audit and Standards (Advisory) Committee or senior management, as appropriate. Before any consultancy work is agreed, the Head of Internal Audit will ensure that Internal Audit has the appropriate skills, resources and approval to undertake the review. The Head of Internal Audit will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future internal audit activity.

Counter Fraud

The primary responsibility for the prevention and detection of fraud lies with management who are also responsible for the management of fraud risks. Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Internal Audit's role in any fraud or corruption related work will be in accordance with the Council's Anti-Fraud and Corruption Strategies and with resources approved by the Audit and Standards (Advisory) Committee in the annual audit plan. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, the service may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify senior management and the Audit and Standards (Advisory) Committee of the results.

Risk Management

Internal Audit is responsible for maintaining the Council's Risk Management strategy and framework. This includes advice and guidance to services on best practice and collating and reporting risk information to key stakeholders. Safeguards will be put in place to ensure that functions deemed as inappropriate in the IIA's guidance on *The Role of Internal Auditing in Enterprise-Wide Risk Management*, are not undertaken by Internal Audit. Safeguards will be put in place to ensure that the Audit and Standards (Advisory) Committee and senior management receive separate, clear and objective messages from each function.

Third Parties

Internal Audit may carry out assurance work for third parties (i.e. organisations outside of the Council), where requested and deemed appropriate to do so. This may include Council subsidiaries, charitable, voluntary sector and other community-based organisations.

All internal audit, consultancy and advisory, and assurance work provided to third-party organisations is carried out in accordance with the standards and requirements set out within this Charter.

Internal Audit also operates a co-sourced delivery model, with a portion of the annual plans delivered by an external provider. The provider is required to work to the same standards and audit methodology as detailed within this Charter.

8. Responsibility

The Head of Audit will be professionally qualified (CMIIA, CCAB or equivalent) and will have wide internal audit and management experience.

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Audit and Standards (Advisory) Committee, a risk based internal audit plan for review and approval;
- Identify the resources required to deliver the audit plan and communicate to senior management and the Audit and Standards (Advisory) Committee the impact of resource limitations on the internal audit plan. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources;
- Review and adjust the internal audit plan, as necessary, in response to changes to the Council's objectives, business, risks, operations, programmes, systems, and controls;
- Communicate to senior management and the Audit and Standards (Advisory) Committee any significant interim changes to the internal audit plan. This includes advising, for whatever reason, where internal audit is unable to provide assurance on any significant risks within the timescale envisaged;
- Seek approval from the Audit and Standards (Advisory) Committee for any significant additional consulting services that are not already included in the audit plan;
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- Follow up on findings and recommendations, as outlined in the Internal Audit Methodology, and report periodically to senior management and the Audit and Standards (Advisory) Committee any corrective actions not effectively implemented.

- Deliver an annual audit opinion and report that can be used by the Council to inform its annual governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control;
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- Ensure that Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter;
- Ensure trends and emerging issues that could impact on the Council are considered and communicated to senior management and the Audit and Standards (Advisory) Committee as appropriate;
- Ensure emerging trends and successful practices in internal auditing are considered;
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit function;
- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit and Standards (Advisory) Committee;
- Ensure conformance of the Internal Audit Service with the Public Sector Internal Audit Standards.

9. Reporting and Monitoring

For each audit engagement, Internal Audit will ensure that a terms of reference is prepared and agreed with the auditees and key stakeholders, setting out the scope of the audit.

On completion of the audit, a written report will be prepared and issued which, where appropriate, will summarise findings and identify areas where improvements are required to the Council's control environment. The Internal Audit report will also include management's response and action to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area, should include agreed actions to be taken and an explanation for any recommendations that will not be implemented.

Internal Audit may also undertake work which does not contribute explicitly to the overall audit opinion. These may include certification of grant claims or consulting activities where Internal Audit provide independent and objective advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary. Where such work is undertaken, this will be set out as part of Internal Audit's annual report. In order to protect Internal Audit's independence and minimise the impact on the delivery of the overall plan, and as set out in the sections above, the Head of Internal Audit will give due consideration to the appropriateness of undertaking such work.

Internal Audit will also be responsible for appropriate follow-up of agreed action. This includes monitoring progress in implementing audit recommendations in accordance with agreed timescales. Progress will be reported to management and to the Audit and Standards (Advisory) Committee on a periodic basis. Where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests, Internal Audit will report this accordingly.

10. Quality Assurance and Improvement Programme

The PSIAS include ten Core Principles, which when taken as a whole, articulate internal audit effectiveness. For an internal audit service to be considered effective and achieve its mission, all Principles must be present and operating effectively:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Internal Audit will develop a Quality Assurance and Improvement Programme (QAIP) that covers internal audit activity. The QAIP will seek to provide reasonable assurance to stakeholders that Internal Audit:

- Conforms with the above principles;
- Performs its work in accordance with the PSIAS (including the Definition of Internal Auditing and Code of Ethics) and the CIPFA Statement on the role of the Head of Internal Audit;
- Understands the Council as an organisation, including its needs and objectives;
- Understands its role and position with respect to the organisation's other sources of assurance and plans its work accordingly;
- Operates in an effective and efficient manner;
- Is perceived by stakeholders as adding value and continually improving operations; and
- Is forward thinking and strives for continuous improvement.

The Head of Internal Audit will communicate to senior management and the Audit and Standards (Advisory) Committee the outcomes of the QAIP, including results of ongoing internal self-assessments and external assessments conducted at least every five years by a qualified, independent assessor.

Author: Head of Internal Audit and Investigations

Date: November 2021

Appendix A – Chartered Institute of Internal Auditors – Code of Ethics Principles

The Institute of Internal Auditors Code of Ethics is a statement of principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing.

A summary of the principles and rules of conduct is provided below. The full version of the Code of Ethics can be seen here: <https://www.iaa.org.uk/resources/ippf/code-of-ethics/>

Code of Ethics – Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rule of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix B – The Seven Nolan Principles of Public Life

The 'Seven Principles of Public Life' apply to all in the public service. These are:

Selflessness: Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership: Holders of public office should promote and support these principles by leadership and example.

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London Borough of Brent and Pension Fund Audit Progress Report and Sector Update

Year ending 31 March 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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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 Engagement Lead or Engagement Manager.

Progress at November 2021

Financial Statements Audit

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31 August. The date by which authorities are required to publish audited financial statements is 30 September. In 2020 this date was pushed back to 30 November.

We reported our work in the Audit Findings Report in September and gave our opinion on the financial statements on 29 September 2021.

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.

Our work on the 2021/22 financial statements audit will commence in the New Year.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. 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, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

Our work on the Council’s 2020/21 Value for Money conclusion is complete and we presented the Auditor's Annual Report on 22 September 2021 to the Audit and Standards Committee. We will present the report to Full Council in February 2022.

Progress at November 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November. DWP has extended the deadline for reporting the findings of this work to 31 January 2022. We will report our findings to the Audit Committee in March 2022.

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 return began in October.

We also certify the Authority's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government (MHCLG). The certification work for the 2020/21 return is due to begin in December.

Meetings

We met with Finance Officers in November as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in November to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit & Standards Advisory Committee in September 2021.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan – Authority We are required to issue a detailed audit plan to the Audit & Standards Advisory Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	March 2021	Complete
Audit Plan – Pension Fund We are required to issue a detailed audit plan to the Audit & Standards Advisory Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	April 2021	Complete
Audit Findings Report – Authority and Pension Fund The Audit Findings Report was reported to the September Audit & Standards Advisory Committee.	September 2021	Complete
Auditors Report – Authority and Pension Fund This includes the opinion on your financial statements.	September 2021	Complete
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	December 2021	Complete

2020/21 Audit-related Deliverables	Planned Date	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers' Pensions based upon the mandated agreed upon procedures we are required to perform. At the time of drafting this report we await some payroll working papers to select our testing sample. There is a risk that the 30 November 2021 deadline will be missed, but we are working with Management to complete this work as soon as possible.	30 November 2021	Not yet due
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. Work is currently in progress and on track.	31 January 2022	Not yet due
Pooling of housing capital receipts - certification This is the report we submit to Ministry of Housing, Communities and Local Government based upon the mandated agreed upon procedures we are required to perform. Work will commence in December.	4 February 2022	Not yet due

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

[FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

FRC report (cont.)

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities 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.

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

What can be learned from Public Interest Reports? – Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

- 1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
- 2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

- 3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
- 4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1) The context of local government in a COVID-19 world
- 2) Governance, scrutiny, and culture
- 3) Local authority leadership.

The full report is available here:

<https://www.granthornton.co.uk/en/insights/lessons-from-recent-public-interest-reports/>

Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states “In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils’ finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.”

The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

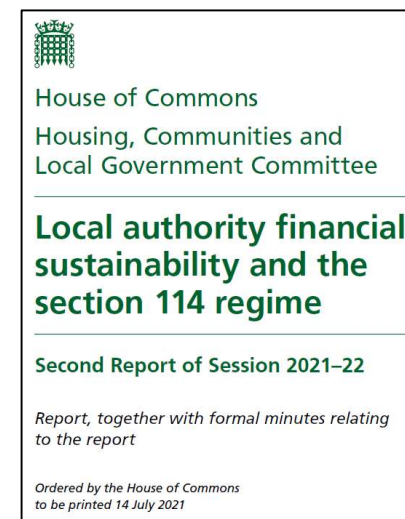
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms.”

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>



Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons
Committee of Public Accounts

**Local auditor reporting
on local government in
England**

Eleventh Report of Session 2021–22

2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state “The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 10 of the 2019/20 audits still incomplete.”

Grant Thornton commented “Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021.”



The news article can be found here:

<https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.



The news article can be found here:

<https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/>

Guide to support Value for Money (VfM) analysis for public managers – CIPFA

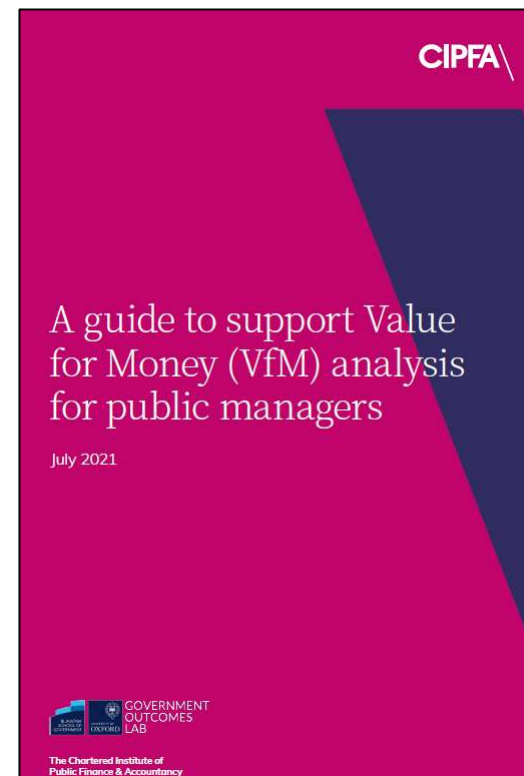
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state “The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to ‘doing nothing’ as well as the closest comparator.”

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.

The guide is available to CIPFA members through the website.



Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK's statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment "While the exact scale and nature of local authorities' roles and responsibilities in reaching the UK's national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector's powers and responsibilities for waste, local transport and social housing, and through their influence in local communities.

Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government's approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities' overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities' ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach."

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities' reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

<https://www.nao.org.uk/report/local-government-and-net-zero-in-england/>



Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state “Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

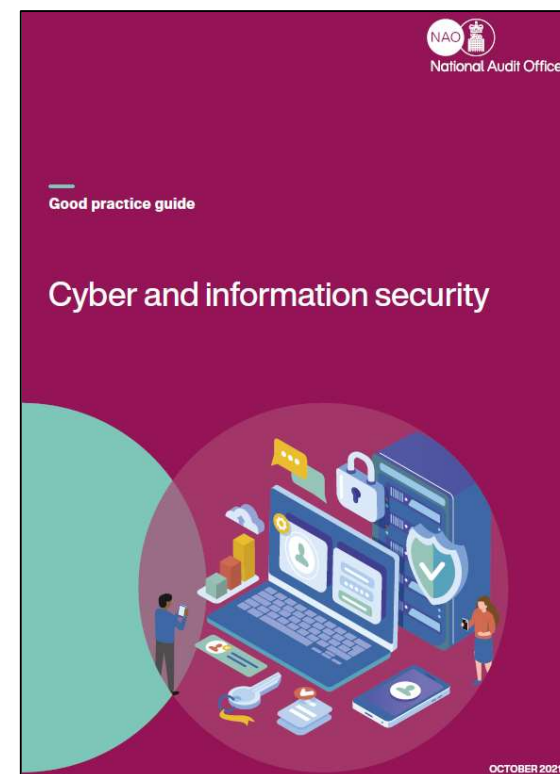
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>





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A&SAC FORWARD PLAN / WORK PROGRAMME / UPCOMING AGENDA						
Topic / Date	11-May-21	26-Jul-21	22-Sep-21	07-Dec-21	31-Jan-22	15-Mar-22
Internal Audit & Investigations						
Internal Audit Annual Report, including Annual Head of Audit Opinion	X					
Review Internal Audit Charter				X		
Internal Audit and Counter Fraud Progress Reports			X		X	
Draft Internal Audit and Investigations Annual Plan						X
External Audit						
External Audit progress report		X	X	X	X	X
External Audit plan	X					X
Statement of Accounts & External Auditor's Report			X			
Annual Auditor's Report			X			
Financial Reporting						
Treasury Management Mid-term Report				X		
Treasury Management Strategy				X		
Statement of Accounts		X	X*			
Treasury Management Outturn Report	X					
CIFPA Financial Management Code & Assessment		X		X		
Governance						
To review performance & management of i4B Holdings Ltd and First Wave Housing Ltd			X		X	
Review of the Financial and Procedural Rules governing the Mayor's Charity Appeal				X*		
Review of the use of RIPA Powers	X					X
Planning Code of Practice Review					X	
Receive and agree the Annual Governance Statement		X*				
Risk Management						
Strategic Risk Register Update		X			X	
Cyber-Security Risk				X		
Emergency Preparedness		X				
Audit Committee Effectiveness						
Review the Committee's Forward Plan	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 Committee

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