

Date: Monday 25 September 2023 at 4.00 pm

Venue: Jim Cooke Conference Suite, Stockton Central Library, Church Road,
Stockton on Tees TS18 1TU

Cllr Barry Woodhouse (Chair)
Cllr Stefan Houghton (Vice-Chair)

Cllr Marc Besford
Cllr Paul Rowling
Cllr Mick Stoker
Cllr Laura Tunney

Cllr Ross Patterson
Cllr Susan Scott
Cllr Emily Tate

AGENDA

- 1 Evacuation Procedure** (Pages 7 - 8)
- 2 Apologies for Absence**
- 3 Declarations of Interest**
- 4 Minutes**
To approve the minutes of the last meeting held on 31st July 2023 (Pages 9 - 12)
- 5 Annual Governance Statement** (Pages 13 - 22)
- 6 Treasury Management Annual Report** (Pages 23 - 34)
- 7 External Auditor - Audit Certificate 2020/21 - To Follow**
- 8 External Auditor - Follow Up Letter to the Audit Completion Report 2021/22 - To Follow**
- 9 External Auditor - Auditor's Draft Annual Report 2021/22 - To Follow**
- 10 External Auditor - Audit Strategy Memorandum 2022/23 - To Follow**
- 11 Risk Register Update and Audit Activity** (Pages 35 - 40)

- | | | |
|-----------|---|-----------------|
| 12 | Fraud and Corruption Strategy Review | (Pages 41 - 52) |
| 13 | Work Programme | (Pages 53 - 54) |

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting, including the opportunities available for any member of the public to speak at the meeting; or for details of access to the meeting for disabled people, please

Contact: John Devine, Democratic Services Officer on email john.devine@stockton.gov.uk

KEY - Declarable interests are:-

- Disclosable Pecuniary Interests (DPI's)
- Other Registerable Interests (ORI's)
- Non Registerable Interests (NRI's)

Members – Declaration of Interest Guidance



Table 1 - Disclosable Pecuniary Interests

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and property	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer.
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.

* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2 – Other Registerable Interest

You must register as an Other Registrable Interest:

- a) any unpaid directorships
- b) any body of which you are a member or are in a position of general control or management and to which you are nominated or appointed by your authority
- c) any body
 - (i) exercising functions of a public nature
 - (ii) directed to charitable purposes or
 - (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management

Jim Cooke Conference Suite, Stockton Central Library **Evacuation Procedure & Housekeeping**

If the fire or bomb alarm should sound please exit by the nearest emergency exit. The Fire alarm is a continuous ring and the Bomb alarm is the same as the fire alarm however it is an intermittent ring.

If the Fire Alarm rings exit through the nearest available emergency exit and form up in Municipal Buildings Car Park.

The assembly point for everyone if the Bomb alarm is sounded is the car park at the rear of Splash on Church Road.

The emergency exits are located via the doors between the 2 projector screens. The key coded emergency exit door will automatically disengage when the alarm sounds.

The Toilets are located on the Ground floor corridor of Municipal Buildings next to the emergency exit. Both the ladies and gents toilets are located on the right hand side.

Microphones

During the meeting, members of the Committee, and officers in attendance, will have access to a microphone. Please use the microphones, when directed to speak by the Chair, to ensure you are heard by the Committee.

This page is intentionally left blank

Audit and Governance Committee

A meeting of Audit and Governance Committee was held on Monday, 31st July, 2023.

Present: Cllr Barry Woodhouse(Chair), Cllr Stefan Houghton(Vice-Chair), Cllr Marc Besford, Cllr Ross Patterson, Cllr Paul Rowling, Cllr Mick Stoker, Cllr Emily Tate, Cllr Laura Tunney

Officers: Andy Bryson, Clare Harper (ADoF, D&R), Andrew Barber, Martin Skipsey, John Devine (CS)

Also in attendance: Cllr Eileen Johnson (Observer), Gavin Barker (Mazars)

Apologies: Cllr Susan Scott

1 Evacuation Procedure

The evacuation procedure was noted.

2 Declarations of Interest

There were no declarations of interest.

3 Draft Minutes from the meeting which was held 31st May 2023

Consideration was given to the minutes from the meeting which was held on the 31st May 2023 for approval and signature.

RESOLVED that the minutes be approved as a correct record by the Chair.

4 Risk Register Update and Audit Activity

Officers presented the Risk Register and Audit Activity Update to members.

Highlighted to members were three areas which were in the red, the areas had been identified previously and related to an out-of-date Public Rights of Way Improvement Plan, which due to a lack of resources it would be unlikely to be updated in the short term. The second was related to a national shortage of suitable child placements, which was being managed it would remain for some time. The third was some issues had been identified with how DBS checks were recorded on the system, however officer assured members hat check had been correctly undertaken.

Next in the update Members were informed that all governance themes which covered all testing undertaken not just that done within the period, were showing as 75% or higher.

Members asked Officers how the various risk headings in the report had been decided upon, Officers explained to members that the sections and headings were linked to the Strategic Plan.

Officers also informed members that the Health and Safety Report which would be coming to the committee would be undergoing changes to give member more information and focus on the outcomes of the training highlighted within it.

The Update was Noted.

5 Draft Annual Governance Statement 2022/23

The Accounts and Audit Regulations 2015 required all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts. The deadline for completion of the Statement for 2022/23 was 30 September 2023 at which point they were subject to the external audit process.

The audited Statement of Accounts and the Annual Governance Statement would be presented for approval to this Committee.

A further requirement of the regulations stated that the Statement should be signed by the Chief Executive and the leading Member of the Council, following approval by the Committee. A key objective of this signing off process was to secure corporate ownership of the statement's contents.

The Annual Governance Statement included an acknowledgement of responsibility for ensuring that proper arrangements were in place around the governance of its affairs and an indication of the level of assurance that the system provided. The statement also included a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

The Council's Annual Governance Statement for 2022/23 was included within the main report. At the time of the report the Council had not identified any significant issues that were not being addressed within the statement.

RESOLVED that the report be noted

6 External Auditor - Audit Progress Report

Mazars gave a update report to Members of the committee, The 2020/21 Audit had been waiting for national audit clearance. Which had since been given which would enable Mazars to issue the certificate for the audit to be concluded.

Moving onto the Audit for 2021/22 which Officers noted had been spoken about at length by the Committee. Mazars briefly recapped the various delays which had been discussed with the Committee, while also pointing out that the delays were not due to any failings or shortcomings on behalf of Stockton Borough Council, they were confident that an opinion would be able to be issued at or shortly after the September meeting of the committee. But Mazars did expect a delay in being able to issue the certificate on the 2021/22 Audit. Outlined the report from Mazars was that only 12% of Audits were able to meet the original deadline for the Audit and at the time of the meeting that number had only increased to 27% of local authorities.

The Audit Strategy Memorandum for 2022/23 would have normally been presented by Mazars at the meeting, but Mazars advised that due to the delays in the previous audits that it wasn't possible. Mazars expect to present the Audit Strategy Memorandum to the September meeting, but that Audit work was likely to be delayed and there also further anticipated delays for the pension fund assurances.

Members enquired if any guidance or direction had been given by the Government due to the delays affecting most local authorities. A letter had been sent out to all authorities talking about possible solutions, but nothing had been decided at present.

RESOLVED that the report be noted.

7 Annual Statement of Accounts 2021/22

Officers presented the Annual Statements of Accounts for 2021/22 to the Committee members for information only. As Officers were aware that new members of the Committee would like to familiarise themselves with them, as the Triannual valuations had been included into the accounts. Officers were hopeful to bring the accounts for 2021/22 back for final sign off in September 2023. Members thanked Officers for presenting the report.

RESOLVED that the report be noted

8 Draft Annual Statement of Accounts for 2022/23

Members were presented with the Draft Annual Statement of Accounts for 2022/23. The Council is required by law to produce a detailed Statement of Financial Accounts, which provides information to all stakeholders.

The Statement explains in detail how the Council used its resources and, the net value of the Council (in terms of its assets, liabilities and reserves.)

Three recommendations were outlined in the report which were as follows:

- Note the financial information presented in the report and the Council's unaudited Statement of Accounts and the financial position for 2022/23, as of 31 March 2023.
- Note the arrangements for the public inspection and external audit of the Statement of Accounts 2022/23.
- Note that at this stage, due to ongoing external audit delays it is anticipated that the statutory accounts publication deadline is unlikely to be achieved for the 2022/23.

The Draft Statement was due to be presented by the end of May 2023, but as outlined in the recommendations that deadline was impacted by the Teesside

Pension Fund Audit delay. All Authorities in the Teesside area had been impacted by this and was not a fault of Stockton on Tees Borough Council.

Due to that delay the public inspection notice was also impacted, and the Council issued a statement outlining the delays. The new public inspection notice would start from 01/08/2023 and would be available for the public on the Councils website. Related to the external delays the Accounts deadline to be signed off which had been the end of September 2023, would be delayed until at least the end of November 2023.

Members praised Officers for the clear and precise nature of the statement details and layout. Members also asked Officers how the reserves shown in the statement were calculated. Officers explained that there was no set calculation for setting the reserve levels, it is set through professional opinion of Officers and through comparison against other local authorities.

RESOLVED that the report be noted

9 Work Programme 2022/23

The Work Programme was Noted.

AGENDA ITEM

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

25 SEPTEMBER 2023

REPORT OF DIRECTOR OF CORPORATE SERVICES

ANNUAL GOVERNANCE STATEMENT 2022/23

PURPOSE OF REPORT

This report presents to Members the Council's Annual Governance Statement for 2022/23.

RECOMMENDATIONS

1. That Members approve the Annual Governance Statement for 2022/23.

DETAIL

1. The Accounts and Audit Regulations 2015 require all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts. The deadline for completion of the Statement of Accounts for 2022/23 is 30 September 2023 at which point they are subject to the external audit process.
2. A further requirement of the regulations state that the Statement should be signed by the Chief Executive and the leading Member of the Council, following approval by the Committee. A key objective of this signing off process is to secure corporate ownership of the statement's contents.

3. The Annual Governance Statement includes an acknowledgement of responsibility for ensuring that proper arrangements are in place around the governance of its affairs and an indication of the level of assurance that the system provides. The statement also includes a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.
4. The Council's Annual Governance Statement for 2022/23 is attached at **Appendix A**. At this time the Council has not identified any significant issues that are not being addressed within the Statement. Officers will be present at the meeting to report on the governance framework and control environment in place within the Council that enables the detailed preparation of the statement.

FINANCIAL AND LEGAL IMPLICATIONS

5. The Accounts and Audit Regulations 2015 and Statutory Instrument 234/2015 require all English authorities to prepare an Annual Governance Statement and for it to accompany the Statement of Accounts.

RISK ASSESSMENT

6. None directly from this report.

COMMUNITY STRATEGY IMPLICATIONS

7. None directly from this report.

CONSULTATION

8. None directly from this report.

Contact Officer: Martin Skipsey

Post Title: Assistant Director – Procurement and Governance

Telephone No. 01642 526364

E-Mail Address: martin.skipsey@stockton.gov.uk

2022/ 2023 Annual Governance Statement

SCOPE OF RESPONSIBILITY

Stockton Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. We also have a duty to continually review and improve the way in which functions are exercised.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”. The Framework constitutes ‘proper practice in relation to internal control’. This statement explains how Stockton Borough Council has complied with the code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and leads the community. The framework enables us to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2023 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The Council Plan 2023 - 2026 provides the framework for the Council, partner organisations, groups of residents and individuals, to work together to improve the quality of life in Stockton by 2025. It sets out a Vision for the borough and its residents and how everyone will work together to achieve that Vision.

Our Vision for the Borough

A place where people are healthy, safe and protected from harm

This means the borough will be a place where:

- People live in cohesive and safe communities
- People are supported and protected from harm
- People live healthy lives

A place that is clean, vibrant and attractive

This means we will enjoy:

- Great places to live and visit
- Clean and green spaces
- Rich cultural experiences

A place with a thriving economy where everyone has opportunities to succeed

This means that the borough will have:

- A growing economy
- Improved education and skills development
- Job creation and increased employment

We will play our part in bringing about this vision for the Borough by being...

A Council that is ambitious, effective and proud to serve

This means that we will make sure that we provide:

- Financial sustainability and value for money
- Dedicated and resourceful employees
- Strong leadership and governance

The Council Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our numerous services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the

authority's vision remains relevant and meets the needs of local communities. There are regular reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including an annual appraisal scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job descriptions/ person specifications.

The roles and responsibilities of Council members and employees are clearly documented. The Council's Constitution sets out how the Council operates. It incorporates a scheme of delegation and sets out how decisions are made. The Council's Constitution is regularly reviewed and updated to reflect organisational changes. Directorates have established schemes of delegation, which are reviewed regularly to ensure they are current and reflect any on-going organisational changes.

The Constitution includes Rules of Procedure and various Codes and Protocols that set out standards of behaviour for members and officers. The Code of Conduct for Members was reviewed in 2021.

During the year a system of scrutiny was in place allowing the scrutiny function to:

- review and/or scrutinise decisions made, or actions taken in connection with the discharge of any of the Council's functions.

- make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions.

- consider any matter affecting the area or its inhabitants.

- exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and

- consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.

Appropriate governance arrangements are in place for commercial ventures operated through company structures, for example the Hampton by Hilton Hotel.

A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to on-going

review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.

The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Director of Finance and Business Services and Deputy Managing Director is designated Chief Finance Officer (Section 151 Officer) and fulfilled this role through the following:

- Attendance at meetings of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- Involvement in all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered.
- Alignment of medium-term business and financial planning processes.
- Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
- Ensuring that the finance function is resourced to be fit for purpose.

The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- Reviewing and monitoring the Council's approach to risk management and corporate governance including the approval of the Statement of Internal Control.
- Monitoring the integrity of the Council's financial statements and approving the Statement of Accounts.
- Reviewing any proposed changes to accounting policies and promoting discussion around these.

- Approving the role and responsibilities of the Internal Audit Service.
- Considering the appointment of the External Audit Service and monitoring the effectiveness of auditor's performance.
- Approving the internal and external audit plans.
- Reviewing Internal Audit work on a quarterly basis; internal and external annual reports together with any management response and receiving details of specific significant issues highlighted via audit work and referring to the Executive Scrutiny Committee; the Select Committees, the Standards Panel, Cabinet or Council, as appropriate, any issues arising which are key in nature.
- Maintaining an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour, and considering the Council's compliance with its own and other published standards and controls; and
- Considering details of key ethical or wider corporate governance issues submitted by the Standards Panel.

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Director of Corporate Services is the Council's designated Monitoring Officer and a protocol is in place with all directors, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.

Arrangements for whistleblowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Director of Corporate Services show that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. Members have access to a Members Handbook and a Learning & Development Strategy. The Council recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training, and on-going evaluation of the extent to which employees understand and support the values of the Council. In response to the ongoing challenges we face, we have developed a new Health and Wellbeing Strategy and implemented a new learning Management System to increase resilience and capability in employees.

Channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. We continue to use the 'My Views' consultation portal, which provides an improved online platform to support consultations on service changes and proposals.

We continue to work closely with all our partners including other public bodies, the Voluntary, Community and Social Enterprise (VCSE) sector and the private sector. We have established the proportionate governance arrangements for all partnerships.

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The Assistant Director - Procurement and Governance has directed, co-ordinated and overseen the review and its findings have been reported to Corporate Governance Group and the Audit and Governance Committee for their consideration and approval of the Annual Governance Statement.

The review is informed by several assurances gathered from all available sources and in particular:

- Assurances from external sources such as OFSTED and the Care Quality Commission.
- Assurances from Corporate Governance Group.
- A self-assessment against the CIPFA Delivering Good Governance in Local Government Framework 2016 Edition.
- Assurances from senior officers responsible for relevant specialist areas. For example, the Director of Public Health's Annual Report.
- Internal audit planning processes which include consultation with all directors and assistant directors, and the results of audit activity as summarised in the Annual Internal Audit Report. In the report the Audit and Risk Manager states in his opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework: "It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives and detect fraud and other malpractice within a reasonable period of time. Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction".
- Best practice across the sector,
- Performance information which is reported to Cabinet and management teams.
- Governance related issues identified during the year,

- Performance information reported to the Audit and Governance Committee,
- The results of the Council’s self-assessment of compliance with the CIPFA financial Management Code, and
- Progress made in addressing significant weaknesses and issues requiring improvement identified in previous annual governance statements.

The Financial Management Code

The Council has concluded a full self-assessment against the CIPFA Financial Management Code. The work has not identified any significant weakness in compliance with the code. A report will be produced and presented to the Audit & Governance Committee on the outcomes.

AGS Improvement Plan 2023/24

The improvement plan from last year has been delivered, and a new plan for this year developed.

The improvement plan includes the delivery of the Children Services Improvement Plan developed because of the OFSTED Local Authority Children Services Inspection held in February and March 2023.

The improvement plan includes the need to review governance arrangements relating to the commercial ventures such as the hotel company. This has been included due to problems related to this year’s filing of accounts.

The outcome of the review of effectiveness provided us with the necessary assurance that no significant issues were identified. The findings of the review have been reported to Corporate Governance Group and the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement accurately reflects the risk environment and any actions required to improve it. The areas to be addressed with new actions are outlined in the agreed improvement plan.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council’s governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review, and we will monitor their implementation and operation as part of the next annual review

IMPROVEMENT PLAN

Action	Outcome	Responsibility	By When
Review and update the Risk management Strategy	Updated strategy and associated risk management processes	Assistant Director Procurement and Governance	End of 2023/24
Deliver the Children Services Improvement Plan developed after	Improved OFSTED Rating	Good and Beyond Board	End of 2023/24

the OFSTED Inspection			
Review and update the hotel company governance arrangements	Updated arrangements	Monitoring Officer	End of 3 rd Qtr 2023/24
Update the Schemes of Delegation to reflect changes in organisational structures.	New schemes in place	Head of Legal Services	End of 2023/24

By order of the authority

Signed:

M Greene
Chief Executive

Date: 06/09/22

Signed:



R Cook
Leader of the Council

Date: 14/09/23

AGENDA ITEM.

REPORT TO AUDIT & GOVERNANCE COMMITTEE

25 SEPTEMBER 2023

**REPORT OF DIRECTOR OF
FINANCE,
TRANSFORMATION &
PERFORMANCE AND
DEPUTY CHIEF EXECUTIVE**

TREASURY MANAGEMENT STRATEGY – ANNUAL REPORT 2022/23

SUMMARY

This report informs Members of the committee about the treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2022.

REASONS FOR PRODUCING THIS REPORT

The Council operates under the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end 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.

Introduction

The Council's Treasury Management Strategy for 2022/23 was approved at Council on the 23rd February 2022. 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 risk remains central to the Council's Treasury Management Strategy.

The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was also approved by full Council on 23rd February 2022.

External Context

The Council's treasury management advisors Arlingclose have provided the following commentary on the external context.

Economic background: The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a

mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%.

Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review: In the period there were some credit changes of organisations reflecting changes in circumstances. Arlingclose update on these changes, which inform our Treasury Management approach.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree of caution is merited with certain authorities.

Local Context

On 31st March 2023, the Council had net borrowing of £65.38m arising from its revenue and capital income and expenditure. 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. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Actual £m	2022/23 Movement £m	31.3.23 Actual £m
General Fund CFR	185.30	(1.14)	184.16
Less: Other debt liabilities	(8.06)	1.27	(6.79)
Borrowing CFR	177.24	0.13	177.37
Less: Usable reserves	(137.28)	21.57	(115.71)
Less: Working capital	(2.86)	6.58	3.72
Net Borrowing / (Investments)	37.10	28.28	65.38

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m	31.3.23 Rate %
Long-term borrowing	78.53	(1.10)	77.43	
Short-term borrowing	5.93	10.88	16.81	
Total borrowing	84.46	9.78	94.24	4.50%
Long-term investments	16.61	(3.05)	13.56	
Short-term investments	0.00	0.00	0.00	
Cash and cash equivalents	30.75	(15.45)	15.30	
Total investments	47.36	(18.50)	28.86	
Net Borrowing / (Investments)	37.10	28.28	65.38	

During the year long term loans reduced by £1.1m as the principal element of these were repaid, as per the terms of the loans. No additional long term loans were entered into.

Short term loans increased by £11m during the year. After short term loans matured during the year there was a requirement for cash flow purposes to enter into further loans during the last two months of the financial year. Three £5 million loans with other Local Authorities were arranged.

Overall total borrowing increased from £84.46m as at 31st March 2022 to £94.24m as at 31st March 2023.

Total investments decreased during the year reducing £18.5m from £47.36m at the end of 2021-22 to £28.86m at the end of 2022-23. This was due to the authority internally borrowing to fund the capital programme, repayment of government grants following funding reconciliations and planned use of reserves.

Borrowing Update

CIPFA’s 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Authority did not borrow to invest primarily for commercial return during 2022/23 and has no plans to do so in the current capital MTFP.

The Authority currently holds £16.558m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority as part of the updated code in the future will need review the options for exiting these investments if there is an economical case to do so.

Borrowing Strategy during the year

As outlined in the treasury strategy, the Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective. The Authority’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates.

The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

At 31st March 2023 the Council held £94.24m of loans, an increase of £9.78m from the previous year. The year-end borrowing position and the year-on-year change is shown in Table 3 below.

Table 3: Borrowing Position

	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m	Average Rate %	31.3.23 WAM* years
Public Works Loan Board	42.56	(1.45)	41.11	4.78%	7.6
Banks (LOBO)	37.00	0.00	37.00	4.83%	36.9
Local Authorities	0.90	15.23	16.13	3.90%	0.0
Banks (fixed-term)	4.00	(4.00)	0.00	0.00%	0.0
Total borrowing	84.46	9.78	94.24	4.50%	18.0

*Weighted average maturity

The Council continues to holds £37m 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 year.

Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances fluctuated due to timing differences between income and expenditure.

The year-end investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31.3.22	Net	31.3.23	31.3.23
	Balance	Movement	Balance	Income
	£m	£m	£m	Return
				%
Banks & building societies	0.68	-0.44	0.24	0.90
Government (incl. LA's)	0.00	0.00	0.00	0.00
Money Market Funds	30.00	-15.00	15.00	3.90
Pooled Property funds	16.23	-2.68	13.56	4.26
Total investments	46.91	-18.12	28.80	

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 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.

Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

By end March 2023, the rates on DMADF deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% p.a. in early April and between 3.8% and 3.9% at the end of March.

The progression of credit risk and return metrics for the Council's investments managed in-house are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit	Credit	Bail-in	WAM*	Rate of
	Score	Rating	Exposure	(days)	Return

31.03.2022	4.8	A+	100%	1	1.68%
30.06.2022	4.72	A+	92%	2	1.98%
30.09.2022	4.8	A+	92%	1	2.45%
31.12.2022	4.85	A+	100%	1	3.39%
31.03.2023	4.92	A+	100%	1	3.85%
Similar LA's (31.03.23)	4.84	A+	60%	64	3.77%
All LAs (31.03.23)	4.71	A+	59%	12	3.66%

*Weighted average maturity

Externally Managed Pooled Funds: £13.56m (based on 31.3.23 valuation) of the Council's investments are held in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a dividend return of £0.587m (4.26%) (£0.536m 2021-22) which is used to support services in year.

The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 4.

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 Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Overall investment income during 2022-23 was £1.399m (£0.600m 2021-22).

The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Council also held £17.287m of such investments in;

- directly owned property £16.559m
- loans to local businesses £0.048m
- loans to subsidiaries £0.476m
- other £0.204m

These investments generated £1.172m of investment income for the Council after taking account of direct costs in 2022/23 representing a rate of return of 6.78%.

Compliance

The Director of Finance, Transformation and Performance and Deputy Chief Executive reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 6 below.

Table 6: Debt Limits

	2022/23 Maximum	31.3.23 Actual	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied
Borrowing	94.24	94.24	195.40	218.40	✓
PFI & finance leases	6.79	6.79	6.50	6.50	✓
Total debt	101.03	101.03	201.90	224.90	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days during 2022/23.

Compliance with specific investment limits is demonstrated in Table 7 below.

Table 7: Investment Limits

	2022/23 Maximum	31.3.23 Actual	2022/23 Counterparty Limit	2022/23 Financial Limit	Complied
The UK Government	£22m	0	Unlimited	N/A	✓
Local authorities & other government entities	£0m	£0m	£5m	Unlimited	✓

Secured investments	£0m	£0m	£5m	Unlimited	✓
Banks (unsecured)	£0.72m	£0.24m	£2.5m	Unlimited	✓
Building societies (unsecured)	£0m	£0m	£2.5m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£2.5m	£12.5m	✓
Money market funds	£30m	£15m	£5m	Unlimited	✓
Strategic pooled funds	£16.2m	£13.58m	£15m	£25m	✓
Real estate investment trusts	£0m	£0m	£5m	£12.5m	✓
Other investments	£0m	£0m	£2.5m	£5m	✓

* see table 4 above for actual values with individual counterparties as at 31st March 2023.

Treasury Management Indicators

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

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 all borrowing were:

	31.3.23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	18%	25%	0%	✓
12 months and within 24 months	1%	40%	0%	✓
24 months and within 5 years	5%	60%	0%	✓
5 years and within 10 years	13%	80%	0%	✓
10 years and above	63%	100%	0%	✓

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£15m	£15m	£15m
Limit on principal invested beyond year end	£60m	£50m	£40m
Complied	✓	✓	✓

Prudential Indicators 2022/23

Introduction: The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford

to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2022/23. Actual figures have been taken from or prepared on a basis consistent with, the Council's Statement of Accounts.

Capital Expenditure: The Council's capital expenditure and financing is summarised as follows.

Capital Expenditure and Financing	2022/23 Estimate £m	2022/23 Actual £m	Difference £m
Total Expenditure	79.18	47.8	(31.38)
Capital Receipts	3.57	1.0	(2.57)
Grants & Contributions	48.5	43.4	(5.10)
Revenue	8.7	1.4	(7.29)
Borrowing	18.4	2.0	(16.42)
Total Financing	79.18	47.8	(31.38)

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.23 Estimate £m	31.03.23 Actual £m	Difference £m
General Fund	198.9	184.2	(14.74)
Total CFR	198.9	184.2	(14.74)

There was a difference of (£14.74m) on the CFR from the original estimate due to a variance against the approved spend profile within the capital programme in year.

Actual Debt: The Council's actual debt at 31st March 2023 was as follows:

Debt	31.03.23 Estimate £m	31.03.23 Actual £m	Difference £m
Borrowing	138.47	94.24	(44.23)
Finance leases	2.21	3.49	1.28
PFI liabilities	2.98	3.30	0.32
Total Debt	143.66	101.03	(42.63)

There was a significant reduction in the planned borrowing requirements during 2022/23 due

to grant payments received by the authority and slippage on the capital programme.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows the position as at 31st March 2023;

Debt and CFR	31.03.23 Estimate £m	31.03.23 Actual £m	Difference £m
Total debt	143.66	101.03	(42.63)
Capital financing requirement	198.90	184.16	(14.74)
Headroom / (Under Borrowed)	(55.24)	(83.13)	(27.89)

Total debt during the year remained below the CFR. At the 31st March the Council was under borrowed by £83.13m.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31.03.23 Boundary £m	31.03.23 Actual Debt £m	Complied
Borrowing	195.40	94.24	✓
Other long-term liabilities	6.50	6.79	✓
Total Debt	201.90	101.03	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the *Local Government Act 2003*. It's the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31.03.23 Limit £m	31.03.23 Actual Debt £m	Complied
Borrowing	218.40	94.24	✓
Other long-term liabilities	6.50	6.79	✓
Total Debt	224.90	101.03	✓

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by

identifying the proportion of the revenue budget required to meet financing costs, net of investment income. The table below shows the position as at 31st March 2023.

Ratio of Financing Costs to Net Revenue Stream	31.03.23 Estimate	31.03.23 Actual	Difference
	%	%	%
General Fund	3.0%	1.8%	-1.2%

Name of Contact Officer: Andy Bryson
Post Title: Chief Accountant
Telephone No.: 01642 528850
Email Address: andy.bryson@stockton.gov.uk

This page is intentionally left blank

AGENDA ITEM

REPORT TO AUDIT COMMITTEE
25 SEPTEMBER 2023

REPORT OF DIRECTOR OF
CORPORATE SERVICES

CORPORATE RISK REGISTER UPDATE REPORT AND INTERNAL AUDIT ACTIVITY REPORT

SUMMARY

The Committee is reminded that quarterly reports on the Corporate Risk Register are presented for the purpose of reviewing the key risks that have been identified as having the potential to deflect services from achieving their objectives over the next 12 months and beyond. They also set out the actions being taken to ensure that the risks, and possible adverse outcomes, are minimised.

As a reminder, risks are scored on a scale of one to five for both 'impact' and 'likelihood'.

To inform members of the progress of audit testing to date and present a forward plan of testing and the resources available to meet the plan to support the assessment of risk.

RECOMMENDATIONS

It is recommended that:-

1. The current risk position as identified in the attached update report is noted.
2. The audit activity is noted and the proposed areas of work approved.

DETAIL

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. To support this, audit work is aligned to the strategic risk register and activity is structured around the strategic risks of the organisation.
2. The overall summary shows a summary of audit results against each risk area. The audit assurance is an indicator of how well controls to manage risks are operating, however this is an indicator of internal controls and there may be external factors that remain outside of the council's control which may need to be reflected in a higher risk score.

Risk	Red	Amber	Green	Total	Assurance
			2	2	100.00
A growing economy		1	9	10	93.02
Clean and green spaces		2	6	8	86.36
Cohesive and safe communities		2	18	20	95.77
Dedicated and resourceful employees		2	23	25	96.67
Education and skills development			25	25	100.00
Financially sustainable and value for money		12	71	83	94.03
Great places to live and visit	1	7	31	39	89.04
Job creation and increased employment		1	2	3	90.00
People are supported and protected from harm	7	6	76	89	89.94
People live healthy lives	1	1	10	12	87.70
Rich cultural experiences			6	6	100.00
Strong leadership and governance	4	17	94	115	88.46
Total	13	51	373	437	91.41

- Audit testing results breaks down work undertaken in the previous period to provide members with an update on where audit resources have been employed and the results of that work. This will highlight any concerns raised in the period. There have been no new Red controls identified in the period.

Risk	Red	Amber	Green	Total
			1	1
A growing economy		1		1
Clean and green spaces			1	1
Cohesive and safe communities			1	1
Dedicated and resourceful employees			2	2
Education and skills development			4	4
Financially sustainable and value for money		1	12	13
Great places to live and visit			4	4
People are supported and protected from harm			16	16
People live healthy lives			1	1
Rich cultural experiences			1	1
Strong leadership and governance		3	17	20
Total		5	60	65

- The next section is a graph against key governance themes, this is for all testing undertaken not just in the period. With all areas showing as 75% or higher there are no issues to bring to members attention.



- Planned work identifies the areas to be examined in the next period as required by the Public Sector Internal Audit Standards. We are planning work on a quarterly basis rather than the previous annual basis to enable the service to be more responsive to changing risk.

Impact Risk	1 Very Low		2 Low		3 Medium		4 High		5 Very High		Total	
	Number	Time	Number	Time	Number	Time	Number	Time	Number	Time	Number	Time
			1	1.00	1	0.50					2	1.50
Cohesive and safe communities			3	2.00	1	0.50	1	3.00			5	5.50
Dedicated and resourceful employees			4	9.00	1	1.00					5	10.00
Education and skills development					1	4.00	2	1.50	1	1.50	4	7.00
Financially sustainable and value for money	1	0.50	7	5.25	2	3.25	1	0.50	2	1.50	13	11.00
Great places to live and visit			1	0.50	2	0.75					3	1.25
People are supported and protected from harm			2	1.50	7	9.25	5	8.00	5	5.50	19	24.25
People live healthy lives			2	1.00			2	4.00			4	5.00
Rich cultural experiences			1	2.00							1	2.00
Strong leadership and governance			3	1.75	12	13.00	2	2.00	1	0.50	18	17.25
Total	1	0.50	25	28.00	28	29.75	12	19.00	8	7.50	74	84.75

- Quality Assurance and Improvement shows a balanced scorecard for the delivery of the audit service. The majority of indicators will be reported annually but the ones shown provide an update on progress against agreed work to date. The level of adequate resources is calculated after staff time is adjusted to allow for Annual Leave, Bank Holidays and a reasonable amount of Admin Time. I am pleased to report we were successful in recruiting an internal candidate to the vacant Auditor post and they have now started so the audit service is now back up to full capacity.

Quality, Assurance & Improvement Process

Period Covered	July 2023	to	August 2023
----------------	-----------	----	-------------

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 3 Months)	15	25
Portfolio Coverage (Period)	55	65
Presentation of Annual Report (Annual)	June	*
Presentation of Activity Report	Qtrly	*

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	*
Fraud Strategy Review	31/03/2022	*
Client Satisfaction	TBC	*
Recommendation Implementation	TBC	*

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	*
External Assessment (Every 5 Years)	March 2023	*
Staff Meetings Held (Period)	6	7
Up to Date Audit Manual	March 2023	*

People		
Measure	Target	Performance
Productivity (Period)	75%	75%
Training (Per Financial Year)	20	*
Code of Conduct (Annual)	100%	*
Appraisals (Annual)	100%	*

* - To be reported as part of annual report

7. NFI Progress – 91% of matches have been checked. No fraud and have been identified and only 1 error identified. This provides another source of assurance that our controls are operating effectively.

REPORT THEME	Sum of MATCHES	Sum of PROCESSED	
Blue Badges	507	444	88%
Concessionary Travel	511	510	
Council Tax Reduction Scheme	356	81	
Creditors	2641	2641	
Housing Benefits	29	4	
Payroll	54	32	
Procurement	59	59	
Residents Parking	6	5	
Grand Total	4163	3776	91%

FINANCIAL AND LEGAL IMPLICATIONS

None directly

RISK ASSESSMENT

This is a summary of the Council's risk environment.

COMMUNITY STRATEGY IMPLICATIONS

None

CONSULTATION

N/A

Name of Contact Officer: Andrew Barber, Audit & Risk Manager

Telephone No: 01642 526176

Email Address: a.barber@stockton.gov.uk

This page is intentionally left blank

AGENDA ITEM

REPORT TO AUDIT COMMITTEE

25 SEPTEMBER 2023

REPORT OF DIRECTOR OF CORPORATE SERVICES

ANTI-FRAUD AND CORRUPTION STRATEGY 2023-24

SUMMARY

The purpose of this report is to advise Members of the Anti-Fraud and Corruption arrangements for the period 2023-2024.

RECOMMENDATION

1. That the Audit Committee approves the Anti-Fraud and Corruption Strategy (**Appendix A**).

DETAIL

1. Estimates suggests in excess of £300m is being lost to fraud in local government. With the pressures faced by our services it is imperative that we are able to ensure the funds we have are not being lost to fraudsters.
2. The Chartered Institute of Public Finance and Accountancy (CIPFA) take the lead on providing advice and guidance to the sector on managing the fraud risk. They also co-ordinate annual surveys of fraudulent activity detected across local government.
3. A Code of Practice on Managing the Risk of Fraud and Corruption was published by CIPFA in October 2014. The code has 5 distinct strands:
 - Acknowledge Responsibility
 - Identify Risks
 - Develop a Strategy
 - Provide Resources
 - Take Action
4. The attached strategy has been developed in line with the code of practice with each of the 5 themes addressed. The format of the strategy has been redefined from previous versions to improve the visual appeal of the strategy and make it more effective.

5. The strategy is endorsed by senior management with a foreword provided by the Director of Finance, Development and Regeneration as the responsible finance officer and the Chair of the Audit Committee reflecting the importance of tackling fraud within the authority.
6. At the core of the code is understanding our fraud risk and ensuring we provide adequate resources to address the areas of greatest risk.
7. Based on the results of local counter fraud activity and the national estimates of where fraud occurs it would appear the resources we have available and where they are deployed are commensurate with the current level of risk exposure. There are a number of emerging risk areas (specifically social care and procurement), work will be undertaken from existing resources to assess the risk posed and whether there is a need for additional controls in those areas.
8. There are a significant number of promotional materials available to support counter fraud efforts. Included in the strategy are a number of actions around raising awareness and ensuring everyone understands the risk of fraud therefore helping to prevent fraud occurring and where it does to ensure it is reported and appropriate action is taken.
9. The audit plan supports the fraud risk assessment process providing advice and guidance where controls need to be improved. Good practice suggests continuous monitoring is an effective process for detecting fraud early. Much of the work within the audit plan is moving towards continuous monitoring not only to improve the efficiency and effectiveness of the audit service but also to support the early detection of fraud reducing its impact.

FINANCIAL AND LEGAL IMPLICATIONS

None directly

RISK ASSESSMENT

None.

COMMUNITY STRATEGY IMPLICATIONS

None

CONSULTATION

N/A

Contact Officer: Mr Andrew Barber, Audit & Risk Manager

Telephone No. 526176

E-mail: a.barber@stockton.gov.uk



Anti-Fraud and Corruption

Strategy November 2022

Foreword

Garry Cummings – Director of Finance, Development & Regeneration

Welcome to Stockton Borough Council's Anti-Fraud and Corruption Strategy. Fraud and corruption is estimated to cost the public sector £20.3bn a year in the UK with estimates in the region of £2.1bn in local government alone. Nationally, Council Tax Fraud continues to be an area where significant fraud occurs and Social Services and Procurement fraud have been identified as the areas of greatest risk. Clearly this is an unacceptable waste of taxpayers money and each of us has a role to play in preventing this waste and ensuring those funds are available to deliver services to our residents.

This document will outline some of the good work that is already taking place as well as looking at ways we can improve our systems and processes to prevent future waste. We have relatively low levels of fraud detected locally but we mustn't rest on our laurels and we will continue our work to tackle Council Tax fraud and will look to further develop the work we do to tackle fraud in nationally emerging areas such as Social Services and Procurement. With your help and support we can ensure all available resources are directed to the delivery of services rather than benefitting criminals.

Barry Woodhouse – Audit Committee Chair

As a councillor and chair of the audit committee I see every day the commitment of our staff to ensure services are delivered to the very best of our ability to our residents. It is disheartening that despite all of our efforts more could be done if funds were not being diverted away from vital services into the hands of criminals. We have in place a robust governance framework to help reduce the risk of fraud but as ever it is you, our staff who have the most vital role to play by being vigilant and conscious of the fact that fraud may be occurring. Together we can ensure funds are used in the right way to continue to deliver the very best services to our residents.

Fraud – this is defined by the Fraud Act 2006

“A person shall be guilty of fraud if he

- dishonestly makes a false representation, or
- dishonestly fails to disclose to another person information which he is under a legal duty to disclose, or
- occupies a position in which he is expected to safeguard or not to act against the financial interests of another person and dishonestly abuses that position

AND

- intends to make a gain for himself or another or to cause loss to another or expose another to a risk of loss"

The Council recognises that as well as causing financial loss, fraud is also detrimental to the provision of services, and damaging to the reputation of, and confidence in, the Council, public bodies in general and reputable businesses.

The Council is clear that it will not tolerate any impropriety by employees, elected Members or third party organisations.

Understanding the Fraud Risk

Current Status

The Council has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Council is committed to minimising the risk of fraud, corruption and misappropriation. Development of an anti-fraud culture is part of improving resilience to fraud, through raising awareness, clearly defined responsibilities, robust reporting mechanisms and a suitably resourced anti-fraud strategy.

The national picture suggests that whilst the number of cases per individual authority may be relatively low it is likely there are frauds in a number of the other categories where we have not detected any fraud to date. The highest level of fraud across the public sector relates to procurement, adult social care, insurance and council tax/business rates (excluding housing on the basis we do not have any housing stock). Welfare benefit fraud cases are referred to the Single Fraud Investigation Service for investigation. Instances of procurement fraud can be costly. Losses in relation to adult social care can also be financially significant, however the average value in the other areas tends to be relatively low. The Council does tend to focus its efforts in the areas where the highest numbers currently exist so the potential value of frauds not currently being actively pursued will be relatively low. A significant number of grants have been paid in relation to COVID there was an increased risk of fraud in relation to these grants however robust pre/post payment checks have been in place to minimise the risk. This was confirmed by BEIS during their verification checks.

The results from the last round of the National Fraud Initiative data matching exercise did not identify any cases of fraud.

Current Risk		
Impact	Likelihood	Score
2	1	2

How we Tackle Fraud

Detection

We have well established systems and processes in place to detect fraud if it does occur..

- The Council will use all legal and cost effective means to detect fraud, corruption and bribery including working with other organisations in national data matching schemes e.g. the National Fraud Initiative, Housing Benefit Matching Service, HMRC Taxes Management Act Returns. This may require the lawful sharing of information.
- Risk based Internal Audit Plan that ensures areas with a high risk of fraud are reviewed at least annually.
- Elected Members, staff and external stakeholders are expected to report suspected fraud, corruption or bribery promptly in accordance with Section 7 of this Strategy.

Prevention

One of our core aims is to prevent fraud occurring in the first instance and have systems in place to prevent fraud.

- The establishment of adequate internal control systems to prevent fraud is the responsibility of Management.
- The Managing Director, Senior Management Team and Service Managers are responsible for assessing the effectiveness of internal control systems in relation to fraud, corruption and bribery.
- Internal Audit coverage is sufficient to provide annual assurance to the Council's Audit Committee and supports managers by assessing controls in relation to the prevention of fraud.
- Awareness raising with staff around the importance of maintaining adequate control systems.

Respond

We have plans and processes in place to respond to suspected fraud.

- All instances of suspected fraud must be notified to Internal Audit service to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.
- Investigation will be conducted by the most appropriate section as detailed below:
 - Fraud involving employees will be investigated in accordance with the Council's Disciplinary Procedures by a nominated Investigation Manager with support from the Internal Audit Service. (See Appendix A)
 - Allegations of improper conduct made against members will be managed by the Monitoring Officer.
 - Other fraud committed against the council will be considered on a case by case basis to determine the most appropriate section to undertake the investigation.
- The Council will adhere to the provisions of the Regulation of Investigatory Powers Act (RIPA) and Money Laundering Legislation.
- Any decision to involve the Police in any investigation of fraud will be taken by the Section 151 Officer in consultation with the Chief Executive and the Monitoring Officer.
- The outcome of the investigation of fraud against the council will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.
- The Council recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officer/members will be dealt with as a disciplinary matter.

- Sanctions – Including recovery of proceeds (POCA, Civil Law, Pensions)

Policy Framework

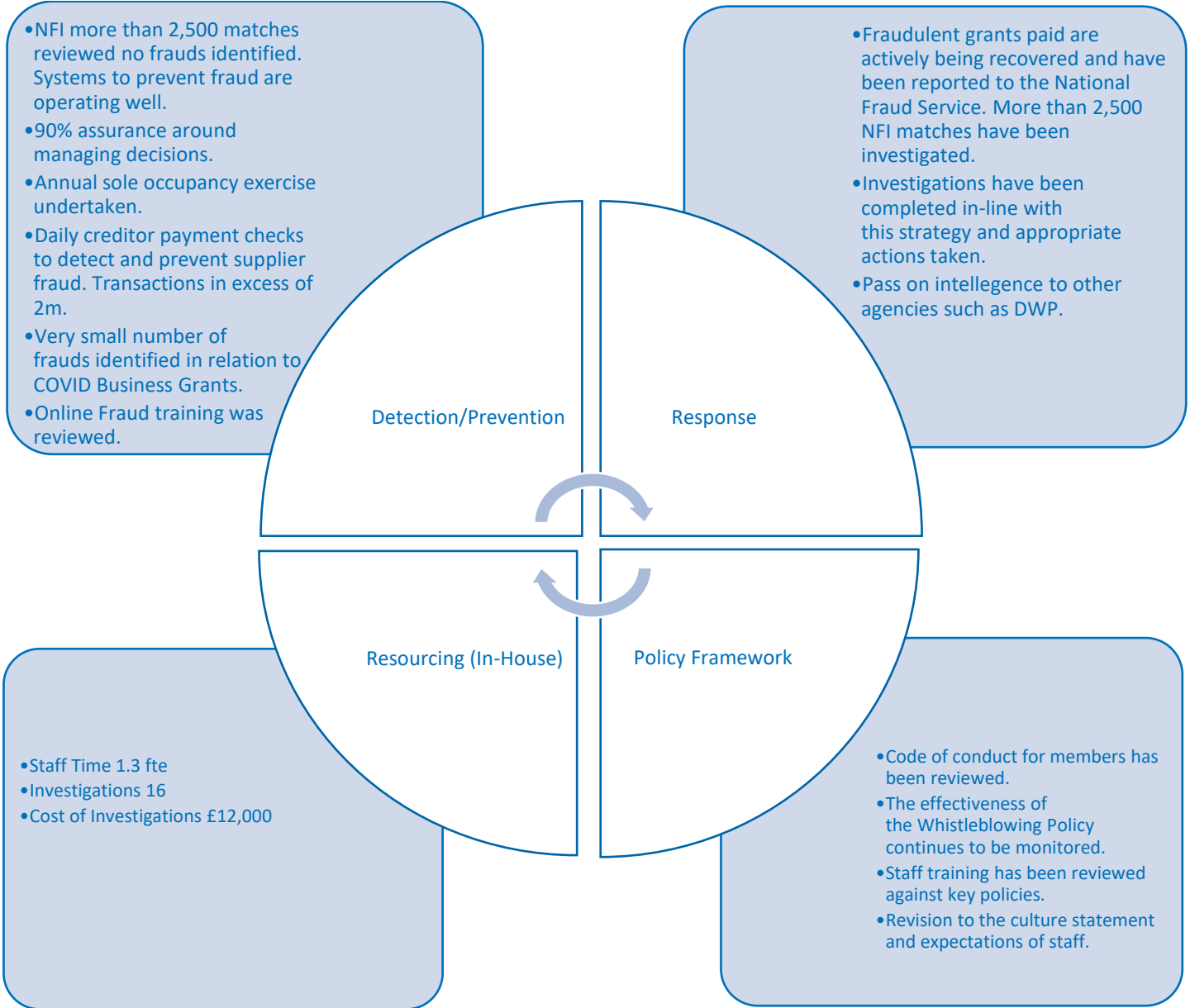
To support our efforts in tackling fraud we have in place a comprehensive policy framework.

- Codes of Conduct for Members and Employees;
- Protocol for members on Gifts and Hospitality;
- Confidential Reporting (“Whistleblowing”) Policy and Complaints Procedures;
- Contracts Procedure Rules;
- Standing Orders and Financial Procedural Rules;
- ICT Security Policies;
- Robust internal control systems, processes and reliable record keeping;
- Effective Internal Audit;
- Effective Recruitment procedures;
- Disciplinary Policy and Procedures;
- The Regulation of Investigatory Powers (RIPA) Procedure;
- Induction and Training.
- Fraud Response Plan

Fraud Management in Action

What have we done?

The diagram below provides details on the actions that have been taken to manage the risk of fraud.



On-Going Actions

We have actions in place to ensure the risk of fraud is managed effectively and we have steps in place to improve our management of this risk further.

- **Anti-Fraud Strategy**
 - Anti-Fraud Strategy to be updated and presented to Audit Committee for approval.
 - Progress against the Anti-Fraud Strategy and Action Plan to be reviewed quarterly as informed by the risk assessment process.
 - Review related policies e.g. Confidential Reporting and ensure these are up to date and consistent with the Anti-Fraud Strategy.
 - Maintain an Internet and Intranet presence for the updated Anti-Fraud Strategy, linked policies and fraud reporting mechanisms
- **Fraud Risk Assessment**
 - Fraud and Corruption risk considered as part of the Strategic Risk Register.
 - Quarterly monitoring and update of identified controls, actions and current status.
 - Assess the extent to which Senior Management identify and monitor fraud risks and increase senior management ownership as necessary.
 - Reporting fraud risk to Members in line with the Risk Management policy.
- **Data Matching**
 - Participation in NFI data matching exercises and review of potential matches in high risk areas.
 - Increase resources available to review high priority matches identified.
- **Continuous Audits and the Use of Data Analytics**
 - Expand the use of IDEA and the programme of continuous auditing.
 - Fraud specific controls included in the programme of controls testing.
 - Increased sharing and matching of internal and/or cross boundary data to develop local counter fraud exercises.
- **Audit Work**
 - Results of the Fraud and Corruption risk assessment to inform the work of Internal Audit, including systems audit work, proactive fraud and corruption checks (compliance) and fraud awareness activities.
 - More probing and directed audits to be conducted in key areas of fraud risk.
 - Fraud Audits to consider management controls over fraud.
 - Consider fraud as part of every audit.
 - Issue annual audit opinion on the internal controls related to fraud.
- **Awareness Campaigns**
 - Review campaign materials available online e.g. “Take Five to Stop Fraud” and determine how we can use these locally.
 - Use of Briefings, KYIT to publish awareness campaigns, particularly during national fraud awareness weeks.

- Publication of Fraud Information
 - Maintain a register for recording fraud information.
 - In line with requirements of the Local Government Transparency Code 2015 the following should be reported on an annual basis:
 - Number of occasions the authority has used powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.
 - Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.
 - Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
 - Total amount spent by the authority on the investigation and prosecution of fraud.
 - Total number of fraud cases investigated.

Key Contacts

Internal Audit

Stockton on Tees Borough Council
16 Church Road (Room 135)
Stockton on Tees
TS18 1TX

01642 526176

internalaudit@stockton.gov.uk

Role:

Investigate employee fraud.

Investigate fraud in schools.

Collate statistics.

Maintain the Anti-Fraud & Corruption Strategy.

Co-ordinate NFI Exercise

Council Tax Support Investigation Team

Revenues & Benefits Service
PO Box 410
Stockton on Tees
TS23 2YD

0800 854 440 (Housing Benefit)

01642 393829 (Council Tax Support)

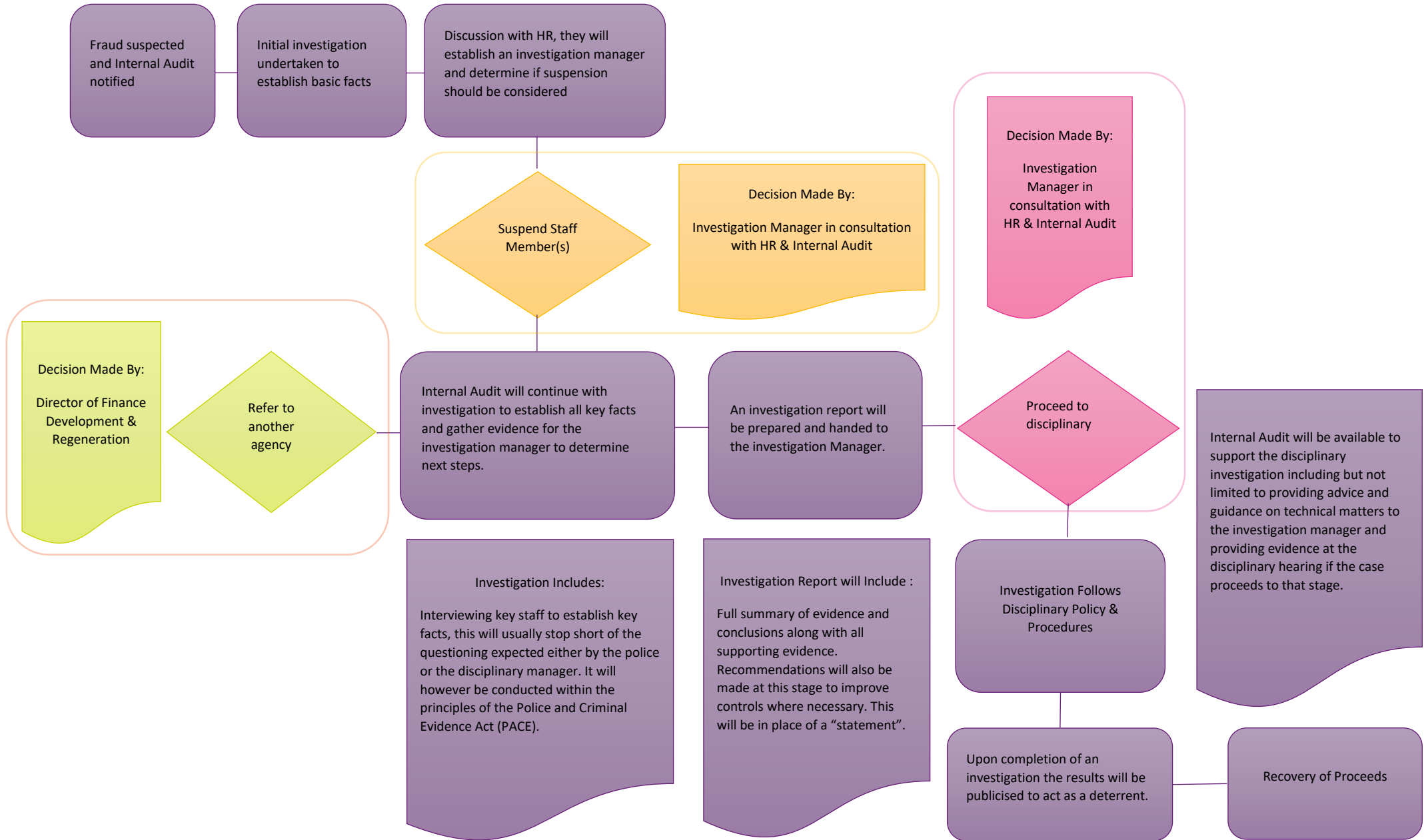
Benefits.Fraud@stockton.gov.uk

Role:

Investigate Council Tax Support Fraud.

Liaise with Department for Work and Pensions.

Internal Investigation Flowchart



Audit Committee Programme 2023/2024

Diary of Meetings & Work Programme

Date	Work Programme
25th September 2023	Annual Governance Statement approval Treasury Management Annual Report External Audit - Audit Progress Report Risk Register Update and Audit Activity Fraud and Corruption Strategy Review Work Programme 2022-2023
27th November 2023	External Audit - Audit Completion Report 2022/23 Annual Financial Statements - Approval after Audit Treasury Management Mid Term Review Annual Report of the Audit Committee (For Discussion) Health and Safety report Risk Register Update and Audit Activity Work Programme 2022-2023
26th February 2024	Annual Report of the Audit Committee (Final) Health and Safety report Constitutional Update if required External Audit - Auditor's Annual Report 2022/23 Risk Register Update and Audit Activity Internal Audit Charter Work Programme 2022-2023

