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Audit Committee

Wednesday, 27th March, 2024 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors:

Dennis Livingstone (Vice-Chairman)
Len Ellis-Brown
Anthony Frankland
Tony Hogben
Richard Landeryou
Belinda Walters

You are summoned to the meeting to transact the following business

Jane Eaton
Chief Executive

Agenda

	Page No.
1. Apologies for absence	
2. Minutes To approve as correct the minutes of the meeting held on 6 December 2023 <i>(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i>	3 - 8
3. Declarations of Members' Interests To receive any declarations of interest from Members of the Committee	
4. Announcements To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. External Auditor - Interim Value for Money Audit Report & Audit Status Update 2022/2023 To receive the report of the External Auditor and update on the 2022/23 Audit	9 - 36

6. **Internal Audit - Quarterly Update Report** 37 - 52
To consider the report of the Chief Internal Auditor
Members are asked to note the report and to consider if any further action is required in response to issues raised, and to identify potential items for inclusion in the internal audit plan.
7. **Internal Audit Strategy and Annual Plan** 53 - 74
To receive the report of the Chief Internal Auditor
Members are asked to approve the report.
8. **Draft Annual Governance Statement** 75 - 94
To receive the report of the Director of Resources
Members are asked to approve the report.
9. **Risk Management - Quarterly Update** 95 - 116
To receive the report of the Director of Resources
Members are asked to note the contents of the report.
10. **Housing Benefit Audit** 117 - 124
To receive the report of the Director of Resources
Members are asked to note the contents of the report and recommendations.
11. **Treasury Management Update Quarter 3** 125 - 134
To consider the report of the Director of Resources
Members are asked to note the report in the third quarter of the year and prudential indicators.
12. **Urgent Business**
Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances

Audit Committee
6 DECEMBER 2023

Present: Councillors: Mike Wood (Chairman), Dennis Livingstone (Vice-Chairman), Anthony Frankland, Tony Hogben, Richard Landeryou and Belinda Walters

Apologies: Councillors: Len Ellis-Brown

AAG/23 **MINUTES**

The minutes of the meeting held on 20 September were approved as a correct record and signed by the Chairman.

AAG/24 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/25 **ANNOUNCEMENTS**

The Chairman advised the committee that moving forward he was looking to utilise expertise and experience of Audit Committee members to work towards having 'champions' in specific areas and share knowledge.

AAG/26 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided a progress report of all internal audit and counter-fraud activity carried out during Quarter 2 of 2023/24 which included a summary of key findings.

Five audits were finalised during the quarter, one of which received an opinion of 'substantial assurance', and four received an opinion of 'reasonable assurance'.

Members noted key findings and progress on tracking in the appendices.

The Chief Internal Auditor advised the committee of amendments to the Audit Plan for 2023/24 where Alcohol Licensing would be reviewed instead of Taxi Licensing to enable service changes to be implemented in that area.

Members were keen to gain further information on how areas were chosen to be included in the Audit Plan. This involved benchmarking with other Councils, ranking the importance of areas to include and liaising continuously with departments to identify new and emerging risks.

It was advised that should any new or emerging risks arise; flexibility was built into the audit plan to direct resources into these areas and all implemented actions were tracked.

Members views were requested to advise areas for consideration and inclusion in the Audit Plan.

RESOLVED

Members noted the contents of the report.

AAG/27 **ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2023/24**

The Director of Resources talked through the action plan that listed areas for improvement that had been identified in the Annual Governance Statement from 2023/24.

Within the action plan six areas were identified for improvement and some were completed, some were still in progress and some areas required a longer time period to complete. The review of the Council's Constitution would likely take until December 2024 to complete, and a Governance peer challenge scheduled for February 2024 would feed into the wider review of the constitution.

Members were keen to acknowledge the success of the Council's management of bullying and harassment following the launch of the Dignity at Work policy.

AAG/28 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided information on progress with the quarterly departmental risk register reviews.

It was reported that there had been no changes since the September Audit Committee where five risks were considered to be high:

CRR17 The Housing Benefit Subsidy claim may be qualified and/or financial losses.

CRR19 Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

- CRR01b Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2025.
- CRR38 Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Tech, but across the Council, leading to failure to achieve agreed business objectives.
- CRR18 A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.
IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.

Members discussed the risk relating to recruitment and retention of staff in key areas. It was suggested a Horsham 'weighting' could assist in providing higher salaries to encourage and retain staff in the district. The Director of Resources advised that a number of options had been considered however significant costs were involved in this option, it wouldn't necessarily target the key areas enough to make a sufficient difference and the Council would find this extremely expensive to fund moving forward.

RESOLVED

Members noted the content of the report.

AAG/29 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS - HALF YEAR REPORT**

The Group Accountant (Technical) presented the mid-year report for 2023/24. The report analysed the various indicators set in the Treasury Management Strategy in December 2022.

Activity was in line with indicators apart from the forecast Capital Programme which was above estimate due to the £7.7m inclusion of the Local Authority Housing Fund. This was added to the capital spend after the budget was set and is projected to be financed from £3.4m of government grant and internal resources with no unfinanced spend currently projected. At the end of September 2023, the Council had no external debt and its investments totalled £84.6m.

During the first half of 2023/24, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £1.6m was earned on investments at an average return of 4.1%.

Members were asked to note the capital value of pooled funds had come under pressure due to interest rate rises, and this had decreased the capital value of pooled funds however it was hoped that once interest rates stabilise values would increase again.

Treasury investment income for the full year is forecast to be £1.3m above the budget as interest rates are significantly higher than those in the budget. Commercial property income is forecast at slightly below budget for the year.

Members discussed property vacancy levels, how bad debts are monitored and how income is affected when property units are vacant within Swan Walk shopping centre. Members acknowledged that property was a huge income for the Council and were keen to gain clarity on the process and procedures in place to enable the Head of Property and Facilities to negotiate leases.

RESOLVED

- i) To note the treasury management stewardship report at the mid-year 2023/24
- ii) To note the mid-year prudential indicators for 2023/24

REASON

- i) The mid-year report is a requirement of the Council's reporting procedures
- ii) The report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

AAG/30 **CAPITAL STRATEGY FOR 2024/25**

The Group Accountant (Technical) presented the report, which combined an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services, how the associated risks were managed and the implications for future financial sustainability. The annual strategy would be recommended to Council in February 2024.

The Committee were advised that Treasury investment indicators were unchanged apart from longer term investments that had been increased by £4m to give leeway for medium term investing.

The Chairman and Members raised questions on the single loan repayment time, borrowing strategy options and commercial investments.

RESOLVED

- i) To approve this Capital Strategy as an appropriate overarching strategy for the Council while leaving full Council to approve the updated Capital Strategy that will accompany the 2024/25 budget to Council.
- ii) To recommend that full Council approve the Treasury Management Strategy for 2024/25 and the associated limits and specific indicators in section 4 and appendix B of this report.
- iii) To recommend that full Council approve the Investment Strategy for 2024/25 and the associated limits and specific indicators included in section 4 and appendix C of this report.

REASON

- i) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Sector: Code of Practice and Prudential Code for Capital Finance that require the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year.
- ii) The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2018 that the Council is required to have regard to.

AAG/31 **URGENT BUSINESS**

The Director of Resources updated the Committee on the current situation regarding the external audit backlog.

Elizabeth Jackson, partner at Ernst and Young had advised that currently there were no further updates regarding the auditing of the 2022/23 accounts.

Information and guidance had still not been received from the Department for Levelling Up, Housing and Communities (DLUHC) on the approach to the backlog, and Ernst and Young were continuing to liaise with other bodies to ascertain how to progress.

Work was however being completed on the value for money conclusion as well as any statutory requirement work.

The Director of Resources is meeting with the external auditor in early January 2024 and any update will be given at the next Audit Committee in March 2024.

Should further information become available before then Committee Members would be updated.

Members expressed huge frustration and disappointment at the current situation and felt that audited accounts are essential to the wellbeing of the Council.

It was agreed that the Chairman of Audit Committee would write a letter to DLUHC expressing the Council's frustration and lack of progression on this matter.

The meeting closed at 6.16 pm having commenced at 5.30 pm

CHAIRMAN



Horsham District Council

Value for Money Interim Report

Year ended 31 March 2023

18 March 2024



Horsham District Council
Chart Way
Horsham
RH12 1RL

18 March 2024

Dear Audit Committee Members

2022/23 Value for Money Interim Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Horsham District Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

This report is intended solely for the information and use of the Audit Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 March 2024.

Yours faithfully

Elizabeth Jackson

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



BOARDROOM



01 Executive Summary



Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken in respect of the period 1 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2022/23.



Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Director of Resources (s151 officer);
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor's Annual Report later in the year.

Executive Summary (continued)

Reporting

Our interim commentary for 2022/23 is set out over pages 13 to 18. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We have not made any recommendations for the Council in relation to 2022/23 and there were no recommendations in previous years.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

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Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified



Executive Summary (continued)

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)



BOARDROOM

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02

Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
 - ▶ Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
 - ▶ Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to launch consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates it is likely that we will disclaim the opinion on the Council's 2022/23 accounts. The proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit planning progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We will highlight those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of our 2023/24 Audit Planning Report.

Context for the 2022/23 and 2023/24 audits

Responsibilities of Council management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.

Seek a fee variation for the cost of additional resources needed to discharge our responsibilities.

Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.



03

Value for Money Commentary

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

Budget outturn report

Horsham District Council have a detailed budget process. The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

The final operational outturn is a £0.26m surplus for the year after agreeing a carry forward of £0.15m. Rising inflation rates have driven up utility and maintenance costs in housing, there is also an increase in housing need throughout the district, resulting in the service spending £0.59m more than originally budgeted. Significant increases in the cost of HVO fuel and vehicle parts as well as increased staffing costs and medical collection caused a £0.88m overspend in Recycling, Waste and Fleet. These overspends and salary pressures were offset by additional income of £1.35m from the Council's investment activities from higher interest rates and £0.58m additional income from town centre parking.

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pend was £5.19m (43%) of the £12.1m capital budget. £0.95m (7%) was spent in M12. A total 14 of the 56 projects did not start, the largest being Oakhurst extension totalling £1m. There were other notable underspends of £1.3m new vehicles, £1.2m on energy efficiency improvements and £1m on public realm. The Council needs to ensure that the capital programme plans are realistic and achievable.

Medium Term Financial Strategy

The Council is budgeting for breakeven in 2023/24. The net budget requirement for 2023/24, at £13.5m, is £1.2m higher than (£12.3m) in 2022/23, reflecting the significant impact of annual inflationary and salary cost-pressures.

The Council has been able to set a balanced budget in 2023/24 using the one-off Funding Guarantee Grant and due to the increase in fees and charges it agreed in the budget and higher investment income from interest rate rises. No reserves had to be used to balance the 2023/24 budget. Significant projected budget deficits in the latter two years of the Medium-Term Financial Strategy are caused by ongoing inflation and costs from the introduction of food-waste. Whilst consideration about the closure of these future budget gaps should be in the Council's thoughts now, no immediate action is needed in the short term until the uncertainty clears.

An £8.5m capital programme is proposed in 2023/24. To ensure the sufficiency of reserves in future years, officers have updated the indicative list of infrastructure replacement and improvement needed over the next eight years. At the current time, the Council does not have any external borrowing for the capital programme.

Value for Money Commentary (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

The Council agreed in October 2012 on a minimum level of general reserves of £6m. The budget gaps over the Medium-Term Financial Strategy amount to £3.1m. The general fund is anticipated to stand at around £20m at 31 March 2023, remaining well above the £6m level throughout the Medium-Term Financial Strategy period unless any further information from the Government or changes in the economy indicate a substantial worsening of our financial position beyond that currently predicted.

The Medium-Term Financial Strategy takes a prudent but balanced view of the financial future, but the Council recognises that continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium-term.

The Council has a good track record of delivering transformational programmes. The Council is well progressed with a major programme of digital transformation to meet the demands and expectations of their customers, funded from reserves, and this has delivered savings expected to date. However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have to fill the future budget gaps from either reserves, making capital investments to generate revenue income or from future provision of non-statutory services.

The Council also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m although there are no detailed financial plans for achieving this level of investment. In 2022/23, £1m across capital and revenue was committed to boost the work needed to reduce carbon emissions and improve the environment in the district.

The annual reviews are done and approved every February. The constant review of the forecasts enables the Council to identify and manage risks to financial resilience. We also note that the projected budget on the revenue account in 2024/25 to 2026/27 are noted and the medium term financial strategy continues to be reviewed and refined to ensure that decisions are taken to set balanced budgets in these three years.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

Horsham District council maintains its risk register ordered by RAG. We have inspected the risk register, we note that risk reviews are performed and reviewed at governing body level which means the governing level reviews organisational risks regularly. Therefore, we note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and gain assurance that the right risks and mitigations are included.

Annual Governance Statement for 22/23

We have reviewed the draft Horsham District Council Annual Governance Statement for the period 2022/23 and confirmed the effectiveness of the system of internal controls and maintenance of effective financial management system. This includes the Authority's own review of their Governance Arrangements and risks to these arrangements.

The 2021/22 AGS included an action plan for 2022/23. Progress against the risks identified is reported in Appendix D of the 2022/23 AGS.

In 2022/23, there were no significant issues that needed immediate reporting to the Audit Committee.

Internal Audit reports from the year and anything issued since end of 22/23, including the Annual Report setting out the Head of IA's Opinion for the year and any counter fraud reports

Internal audit is part of the Council governance and risk structure and its outsourced to third party firm (Orbis). Based on our accumulated audit knowledge, this is a reputable firm and we have not noted any issues in their work in based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls. In addition, there are a number of policies in place to prevent and detect fraud. Furthermore, we note that in terms of corrective action, Council takes actions against internal audit recommendations for both full audits and for operational reviews and the audit committee holds management to account for these actions.

Based on the annual internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that Horsham District Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2022 to 31 March 2023.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

However, internal audit activities have identified a few areas where the operation of internal controls has not been fully effective, as reflected by the three partial and one minimal assurance issued in the year. None of these lead to any weakness for the value for money reporting.

Each year a significant proportion of Internal Audit's time is spent reviewing the Council's key financial systems. Of those completed during 2022/23, all have resulted in either a substantial or reasonable assurance opinion being provided over the control environment, with the exception of Parking Income which will be formally followed up in 2023/24.

We know from our review of minutes for the meetings of the council, cabinet and audit committee, and attendance at meeting and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members. The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit. The council also include review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.

The Council published their draft 2022/23 financial statements for audit on the 30 May 2023, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. We confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and were prepared in line with the content required by the CIPFA Code. We identified two casting errors, one on the CIES and one on Note 30 of the financial statements, however these had no impact on actual financial figures reported in the statements and management have agreed to correct the errors. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation.

The Council have a functional Internal audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely. Furthermore, the Council annually produce a Key Performance indicators report dashboard. The Q2 report for 2023/24 consists of 34 KPIs which were assessed with 67% meeting the target. This demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.

Narrative Statement

The Council's Narrative Report is included in their draft 2022/23 Financial Statements. The report is prepared by the Director of Resources and Head of Finance and Performance based on the requirements of the CIPFA Code.

The performance figures for the 2022/23 year were reported quarterly to Overview and Scrutiny Committee, with the final outturn reported in June. The Council also reviewed delivery of the Corporate Plan objectives at this meeting.

The Council had nine red performance indicators at 31 March 2023, five of which are in Housing Services and Revenues and Benefits. Performance outside the target is the result of an increase in demand and the accumulation of additional burdens since the outbreak of Covid-19 and then the cost-of-living crisis.

The rising inflation rates and increased cost-of-living has had a significant impact on the lives of Horsham residents and businesses during 2022/23. The Council has also been affected by higher levels of expenditure, but despite increased costs, the Council produced an operational surplus of £0.26m, benefiting from the sharp increase to the Bank of England base rate on its treasury management investment income.

The Council set a balanced budget for 2022/23 in February 2022. The ongoing risk though is that the Council will not be able to generate income levels sufficient to maintain the cost rises created by the high rate of inflation we are experiencing. Early identification of issues will help the Council take action to further mitigate overspends and reduce the impact on cash flows. A £1m earmarked reserve for inflationary pressures remains in the earmarked reserves and is available to mitigate the risk of inflation related overspends in 2023/24 as well as the Council being able to use existing reserves if needed to support residents.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The Medium-Term Financial Strategy will be regularly revisited during 2023/24 as it was in 2022/23, updating the assumptions.

The Council's cash flow though remains healthy. At the current year-end, the Council has £8m of cash and cash equivalents. The value of treasury investments including those classified as cash and cash equivalents ended the year at £75m.

Treasury Management Strategy and monitoring reports for debt and investment decisions

In the most recent issue of the Capital Strategy and treasury management, the Council highlights any investment and treasury management plans for the year 2024/25 and analyses the economy and other factors relating to finances beyond 2023. There is nothing to note for the year 2022/23 regarding investments and other related subjects.

The Council is typically cash-rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowings.

The actual internal borrowing for 2022/23 is nil and actual investments is £75m. The Council is not expecting to borrow long-term funds although it may need short-term borrowing if short term cash flow issues require it.

We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.

From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.

Conclusion: Based on the work performed to date, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



04 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Horsham District Council have a detailed budget process. The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

The focus is on the income and expenditure budgets, and the net position impacting on the Council Tax and general fund. This links to the key stakeholders (central government, public) expectations that finances are managed to the budget, therefore, managing the impact on the taxpayer. This can be seen in the year end reporting of spending against budgets.

HDC also have the 2023/24 budget and Medium Term Financial strategy to 2026/27 which sets out financial plans on a medium-term and highlights the risk to financial position and mitigations that HDC has in place to counter the risks.

How the body plans to bridge its funding gaps and identifies achievable savings

As noted above the MTFS, produced in the context of significant uncertainty, estimate is for the Council to deliver a balanced budget in 2023/24 followed by budget deficits through to 2026/27. The cumulative amount of the budget deficits over the medium term is ~£5.2m.

The Council has sufficient reserves to absorb these budget deficits over the medium-term financial strategy but recognises that relying on reserves to bridge these gaps is not a sustainable strategy. The Council continues to review potential actions that it could take to balance the budgets in 2024/25 through to 2026/27, which they plan to present to members as part of the 2024/25 medium term financial plan.

The Council has a good track record of delivering transformational programmes, The Council is well into a major programme of digital transformation to meet the demands and expectations of their customers, funded from reserves, and this has delivered savings.

However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have to fill the future budget gaps from either making capital investments to generate revenue income or from future provision of non-statutory services.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The 2023/24 budget and resultant Council Tax level are set within the context of the Council's Corporate Plan priorities, the financial strategy and to meet the Council's legal requirement to deliver a balanced budget. The Council's Corporate plan was set in 2019, with the following key strategic aims:

- ▶ A great place to live - creating well balanced communities that meet residents' needs
- ▶ A thriving economy - Increase economic growth and create new local jobs
- ▶ A strong, safe and healthy community - Ensure Horsham District remains one of the best places in Sussex to live
- ▶ A cared-for environment - Prioritise the protection of our environment as we move to a low-carbon future
- ▶ A modern and flexible Council - Make it easy for our residents to access the services that they need.

The Overview and Scrutiny Committee are regularly updated on the status of the Corporate Plan.

The Council also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m although there are no detailed financial plans for achieving this level of investment. In 2022/23, £1m across capital and revenue was committed to boost the work needed to reduce carbon emissions and improve the environment in the district.

As noted above, the Council reviews its budgetary position annually and produces a rolling four year plan, known as the Medium Term Financial Strategy (MTFS). This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Horsham District council maintains its risk register ordered by RAG. We have inspected the risk register, we note that risk reviews are performed and reviewed at governing body level which means the governing level reviews organisational risks regularly. Therefore, we note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and gain assurance that the right risks and mitigations are included. Internal audit is part of the Council governance and risk structure and its outsourced to third party firm (Orbis). Based on our accumulated audit knowledge, this is a reputable firm and we have not noted any issues in their work in based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls.

How the body approaches and carries out its annual budget setting process

Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. The current budget estimate is for the Council to break even in 2023/24 and deficits through to 2026/27. These remain predicted through a combination of income generation and other efficiency measures, as well as some political decisions. The Council is undertaking a major programme of digital transformation to meet the demands and expectations of their customers, funded from any budget surpluses it generates or from reserves.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Arrangements in place

The Local Government Act 2003 placed new duties on Local Authorities and their Chief Finance Officers in relation to the setting and monitoring of their budgets.

Section 25 requires the s.151 officers to report on the robustness of estimates; and, the adequacy or otherwise of the Council's reserves.

Section 28 requires local authorities to monitor their budgets during the financial year and to take remedial action if this is necessary because of potential overspendings and/ or potential shortfalls in income. The council prepare monthly and quarterly finance review reports that include analysis of the council position against the budget to date and forecast for the year. The budget is communicated to the Cabinet every year in January/February (current year budget was tabled to the cabinet in January 2023).

Furthermore, we note that in terms of corrective action ,council takes actions against internal audit recommendations for both full audits and for operational reviews and the audit committee holds management to account for these actions.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Primary oversight is the responsibility of the council, with some delegated responsibilities (such as financial management) to the Audit Committee and to the Scrutiny Committee which reports to the council. We know from our review of minutes for the meetings of the council, cabinet and audit committee, and attendance at meeting and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members.

The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23.

Reporting criteria considerations

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Arrangements in place

The main responsibility for ensuring appropriate standards such as meeting legislative/regulatory requirements in terms of member behaviour is performed by the Audit Committee who have responsibility for overseeing the policies of the council.

The council also include review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation.</p> <p>Financial Information</p> <p>The budget is monitored on a monthly basis and quarterly reports are made to the Overview & Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.</p> <p>Non-financial information</p> <p>Other performance indicators are reviewed annually by SLT. The indicators are held on the Covalent system where the performance indicators data is entered requires senior officer verification. After the officer has entered their data the relevant manager is sent an email to notify it requires verifying. This is used with the financial information to provide an overview of the Council's efficiency and effectiveness in delivering its services.</p> <p>We noted this process in action through minute reviews which details assessment of areas for improvement.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The council have a functional Internal audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely.</p> <p>Furthermore, the Council annually produce a Key Performance indicators report dashboard. The Q2 report for 2023/24 consists of 34 KPIs which were assessed with 67% meeting the target. This demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.</p>

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23.

Reporting criteria considerations

Arrangements in place

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

As of 25th May 2017 the Council had agreed to enter a partnership with LGSS to deliver its Revenues and Benefits services. This followed a period of dissatisfaction with the previous provider, CenSus (Central Sussex Partnership). The date for the transition of the service was set as 1st October 2018 initially, but was then pushed back to 1st April 2018. The service has been outsourced but the data system currently sites with Census.

We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.

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Report to Audit Committee

27 March 2024

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 3

Executive Summary

The purpose of this report is to provide Members with an update on all internal audit and counter-fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan together with an update on the performance of the internal audit service during the period.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised.
- Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Internal Audit Strategy and Annual Plan 2023-24.

Wards affected: All.

Report Author: Reem Burton, Horsham Chief Internal Auditor

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Background Information

1 Introduction and Background

- 1.1 This progress report covers work completed during the third quarter of 2023/24.
- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2023-24, which was approved by the Audit Committee on 29 March 2023.

2 Relevant Council Policy / Professional Standards

- 2.1 The Accounts and Audit (England) Regulations 2015 state that: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. This responsibility is discharged through the Orbis Internal Audit team.
- 2.2 The Council’s Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: “The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The strategy and terms of reference for Internal Audit are detailed in the Council’s Internal Audit Charter which is approved and reviewed annually by the Audit Committee”.
- 2.3 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

3 Details

- 3.1 Key audit findings from final reports issued are summarised in Section 1 of Appendix A. Seven audits were finalised during the quarter, one of which received an opinion of ‘substantial assurance’, and six received an opinion of ‘reasonable assurance’.
- 3.2 Formal follow-up reviews continue to be carried out for all audits where ‘minimal assurance’ opinions have been given and for higher risk areas receiving ‘partial assurance’. Progress on action tracking is provided in Section 3 of Appendix A.
- 3.3 Flexibility is built into the audit plan to allow resources to be directed to any new or emerging risks. We continue to liaise with departments to identify such risks but would also welcome input from Members. Details of reviews added and removed from the plan this year are set out in Section 4 of Appendix A.
- 3.4 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in Section 5 of Appendix A.

4 Next Steps

- 4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2023/24.

5 Outcome of Consultations

- 5.1 Heads of Service / Service Managers are consulted during each audit. At the end of each review, audit findings are discussed with the relevant Head(s) of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions where a director may also be consulted, particularly for audits that span a number of departments.

6 Other Courses of Action Considered but Rejected

- 6.1 Not applicable.

7 Resource Consequences

- 7.1 This report summarises information about the work undertaken by Orbis Internal Audit on behalf of Horsham District Council, and there are therefore no direct financial or HR consequences.

8 Legal Considerations and Implications

- 8.1 There are no legal considerations or implications as this report is for noting. Where legal compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

9 Risk Assessment

- 9.1 All Internal Audit work is undertaken using a risk-based approach.

10 Procurement implications

- 10.1 There are no procurement implications arising as this report is for noting.

11 Equalities and human rights implications / public sector equality duty

- 11.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

12 Environmental implications

- 12.1 There are no environmental implications as this report is for noting.

13 Other Considerations

- 13.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

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Internal Audit and Counter Fraud Quarter 3 Progress Report 2023/24

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Personal Safety of Staff and Lone Working

- 1.1 The Council is responsible for the management of the risks to staff health, safety, and welfare arising from lone working, as well as the risks arising from work-related violence. Lone working staff also have a responsibility for their own health, safety, and welfare, and to cooperate with their managers in meeting the Council's legal obligations. Instances of work-related violence towards council staff and agents working on behalf of the Council are not tolerated.
- 1.2 The purpose of our review was to seek assurance that:
- Policies are in place in relation to lone working and work-related violence, which are clearly communicated to all employees;
 - Management and staff are aware of their individual responsibilities for lone working, including the completion and timely review of dynamic team risk assessments and, where required, individual risk assessments;
 - Staff are provided with sufficient training in relation to personal safety and work-related violence, reducing the risk of incidents;
 - Incidents of work-related violence are reported, recorded, and monitored in line with agreed protocols; and
 - Arrangements are in place for managing the health, safety, and welfare of third parties and agents.
- 1.3 Overall, we found that a safe working environment for lone working staff has been established through a well-structured and comprehensive Health and Safety (H&S) framework comprising 33 up to date H&S policies including lone working, work-related violence, and homeworking. There is a defined process for reporting incidents and near misses, which are reported to management, reviewed, and investigated as appropriate. The Chief Executive chairs the H&S Management Forum that enables key achievements, working practices, and best practice to be shared.
- 1.4 We did, however, find some instances of non-compliance with the H&S framework by individual line managers, including in relation to completing risk assessments, ensuring lone working procedures are fully implemented, updating risk registers, staff access to the Contact With Caution register, and reporting of third party and violent incidents. Management have agreed to address these issues with relevant managers.
- 1.5 We also identified areas of good practice that management may wish to implement, including bespoke training on personal safety and conflict resolution. Based on the work carried out, we were able to provide an opinion of **Reasonable Assurance**.

Treasury Management

- 1.6 Treasury Management is the management of the Council's cash flows, investments, banking, and money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Such activities are regulated by a variety of professional codes, statutes, and guidance. At the time of the audit, the Council had no external debt, and its investments totalled just over £90million, earning just under £2.3m in interest during 2022/23.
- 1.7 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:
- The Council has established an appropriate Treasury Management Policy and Investment Strategy;
 - All borrowing decisions are based on robust cash flow forecasting over the short, medium, and long term;
 - Investments are made with approved counterparties within approved limits, are correctly paid and authorised, and are repaid by counterparties with the correct amount of interest;
 - Borrowings are made only from approved organisations, are correctly authorised, and repaid to counterparties with the correct amount of interest;
 - There is regular and independent reconciliation between the Treasury Management record, the Bank Account, and the General Ledger; and
 - Decision-making is effective in maximising income, whilst safeguarding the Council's assets.
- 1.8 Our testing found the Council's Treasury Management activities are underpinned by strong governance arrangements, with the policy and strategy subject to annual review by Members. The agreed action from our previous audit has been implemented such that the reconciliation of treasury management records to the general ledger is now signed off. The cash flow position is reported regularly and discussed by relevant managers, and a comprehensive schedule of investments is being maintained.
- 1.9 As a result of our audit we were able to provide an opinion of **Substantial Assurance** over the controls in place. We agreed one medium priority action regarding the timing of reports being shared with Members and presented at Audit Committee, and one low priority action relating to increased financial checks in light of the number of local authorities issuing Section 114 notices.

Information Governance

- 1.10 The General Data Protection Regulation and Data Protection Act (2018) introduced changes to data processing requirements for organisations. This includes strengthened conditions for consent, greater rights for data subjects, the requirement for privacy by design, greater enforcement powers, and an increase in the maximum fine or penalty.
- 1.11 The Council processes large amounts of personal and/or sensitive data for employees, Members, volunteers, and service users, covering a wide range of services including in relation to housing needs, planning applications, legal claims, and health and wellbeing.
- 1.12 This review was an addition to the Internal Audit Plan 2023/24 following a request by senior management. The purpose of the audit was to provide assurance that:
- An effective governance framework is in place to support compliance with data protection legislation;
 - Policies and procedures are in place that provide direction as to the Council's approach to information governance to ensure compliance with legislation, as well as documenting and communicating associated responsibilities;
 - Council information assets are known, classified, and recorded accurately; and
 - Breaches of Council data are subject to consistent assessment and reporting to the Information Commissioner's Office (ICO).
- 1.13 Our review found that roles and responsibilities for information governance across the council are known and documented, with statutory roles clearly assigned and recorded in policy. There is a suite of policies in place that covers various aspects of information governance, and detailed guidance and training for officers is in place that includes reporting requirements.
- 1.14 Robust processes have been developed for handling Freedom of Information (FOI), Environmental Information Regulations (EIR), and Subject Access Request (SAR) that are in line with guidance from the Information Commissioner's Office. We noted that the key performance indicator for response rates uses combined figures for FOI, EIR, SAR, and data protection responses, which we believe may create misleading information. However, once these figures are adjusted, overall performance remains on target.
- 1.15 At the time of our audit, the Council was in the process of updating a Record of Processing Activities to replace the Information Asset Register, detailing all council data, where it is stored, the lawful basis for its collection, retention periods, and any security measures deployed. Records of data breaches are maintained across the council with separate logs for 'near miss', serious, and potentially serious breaches to support management oversight.
- 1.16 Management agreed to reinstate in-person Information Governance Group meetings that were paused during home/hybrid working arrangements, and to improve officer guidance

on carrying out Data Protection Impact Assessments. Based on our work, we were able to provide an opinion of **Reasonable Assurance**.

Parking Services Corporate Compliance

- 1.17 Parking Services is responsible for 3 multi-story and 11 surface car parks in the Horsham town area, in addition to rural car parks and on-street parking. Car parking revenue is an important income stream for the Council, generating £5.5m in 2022/23 through on- and off-street parking, parking permits, and penalty charge notices.
- 1.18 The purpose of this audit was to ensure that the service is delivered effectively and in compliance with all appropriate Council policies and procedures. We therefore sought to provide assurance that controls were in place to meet the following objectives:
- Management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
 - All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls;
 - Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision; and
 - Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process.
- 1.19 Overall, we found the service has good compliance with corporate policies. There are robust arrangements in place to support and manage staff, and risk assessments are in place for officers with patrolling (civil enforcement) roles. Despite there being no corporate requirement to do so, the Parking Manager has proactively created and communicated a Vision Statement for the team.
- 1.20 The new Council-wide system to manage declarations of interest should ensure the team completes declarations in a timely manner, and the Parking Manager has agreed to strengthen oversight of purchase card transactions. We were therefore able to provide an opinion of **Reasonable Assurance**.

Environmental Health Corporate Compliance Follow-up

- 1.21 Environmental Health and Licensing makes a fundamental contribution to the maintenance and improvement of public health, quality of life, and wellbeing by correcting and preventing those factors in the environment that may adversely affect the health of the population. An audit of Environmental Health Corporate Compliance completed in 2021/22 resulted in an audit opinion of Partial Assurance and included eight actions that were agreed with management.

- 1.22 The purpose of this audit was to follow up on the agreed actions. Testing did not include controls that were found to be satisfactory during the previous review. The control objectives from the original review were that:
- Management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
 - All key activities undertaken by the team are conducted in accordance with the Council's policies and procedures and comply with basic internal controls;
 - Expenditure is only incurred for legitimate Council business and is in line with relevant procurement process; and
 - Robust management arrangements are in place and all members of staff are subject to appropriate management and supervision.
- 1.23 We were pleased to note that the control environment has been strengthened, with six of the eight originally agreed actions fully implemented including in relation to recording supervision and return to work meetings, declarations of interest, risk register updates, information asset register, and budget monitoring. A further action relating to retaining evidence of purchase card approvals has been partially implemented.
- 1.24 Only one action remains to be implemented in relation to carrying out and recording driver documents, and a revised date has been agreed with management. As a result of the improvements made, we were able to issue an opinion of **Reasonable Assurance**.

Agile (PLACIS) Computer Application Audit

- 1.25 The PLACIS computer application is a Software as a Service (SaaS) solution provided by Agile Azure Applications Limited. The system went live and initially operational for the Environmental Health & Licensing department in 2020, and implementation is currently focusing on the Building Control department. The PLACIS application supports a range of different areas such as food inspections, housing grant applications, environment health requests, and taxi licensing.
- 1.26 The purpose of this application was to provide assurance that:
- System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
 - Data processed through interfaces is authorised, accurate, complete, securely processed, and written to the appropriate file;
 - Outputs produced by the system are complete, accurate, reliable, and distributed on time and with confidentiality where appropriate;
 - System updates and enhancements are performed in a consistent manner and are subject to sufficient testing and authorisation before implementation; and

- Appropriate support arrangements are in place to manage changes within the system.
- 1.27 Our testing confirmed that robust user access controls are in place with user access reviewed regularly to ensure users remain current and have the correct level of access. Controls are also in place to ensure all system outputs (reports) are reviewed, approved, and accurate prior to being released. Upgrade notes received from Agile are fully tested before going live, with process notes developed and distributed prior to system updates being completed out of hours to minimise disruption. There is a Business Continuity Plan in place to enable the service to continue in the event of any system outage.
- 1.28 We were able to provide an opinion of **Reasonable Assurance** following agreement of three medium priority actions with management regarding provider notification of penetration testing and results, strengthening mitigation of single point of failure risk, and Multi Factor Authentication. We also agreed three low priority actions where implementation represents good practice.

Business Continuity

- 1.29 The Civil Contingencies Act 2004 places a statutory duty on local authorities, as a category one responder, to develop, maintain, and test business continuity plans. Effective business continuity planning provides a controlled resumption of prioritised services within expected timescales, ensuring an organisation can deliver a satisfactory, pre-defined level of business operations in response to a disruption to business as usual.
- 1.30 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- Adequate governance arrangements are in place in relation to Business Continuity Planning;
 - A business impact assessment (risk assessment) has been completed across the Council to prioritise service continuation; and
 - Adequate and effective continuity plans have been developed, maintained, kept up to date, communicated, and tested for all services.
- 1.31 We found that the Council has defined and established responsibilities for business continuity invocation and escalation, and business continuity information and documents are readily available and accessible to those who need them, which should enable appropriate actions to be taken in a timely manner should disruptions occur. A Business Impact Analysis process has been established, allowing for understanding of the potential impact of disruptions on various business activities and creating robust arrangements for identifying the Council's critical and priority activities.
- 1.32 Whilst we identified a small number of gaps in the documenting of mitigations for red and amber risks, overall, we observed good practice in managing business continuity

arrangements. We were therefore able to provide an opinion of **Reasonable Assurance** over the controls in place to manage business continuity.

2. Counter Fraud and Investigation Activities

National Fraud Initiative (NFI)

- 2.1 Internal Audit has been working with relevant departments to ensure that data matches received in January 2023 as part of the biennial NFI exercise are being investigated and actioned appropriately. To date, no instances of fraud have been identified.

Fraud Risk Assessments

- 2.2 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat to the Council has been considered, and appropriate mitigating actions identified.

Counter-Fraud Strategy and Framework

- 2.3 Horsham District Council has in place a Counter Fraud Strategy that sets out its commitment to preventing, detecting, and deterring fraud.

3. Action Tracking

- 3.1 All high priority actions agreed with senior management as part of individual audit reviews are subject to action tracking. As of 31 December 2023, 100% of high priority actions due had been implemented within agreed timescales.
- 3.2 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high or medium priority actions that are overdue, and an update on progress with high priority actions will continue to be reported to this committee.

4. Amendments to the Audit Plan

- 4.1 In accordance with proper professional practice, the Internal Audit plan for the year is kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk.
- 4.2 Following discussions with management, the following review has been removed from the 2023/24 audit plan:

Planned Audit Work	Rationale for Postponement / Removal
Private Sector Leasing	In light of the low uptake of this scheme, an audit would not be beneficial at this time.

4.3 We will consider this audit for inclusion in the 2024/25 audit plan as part of the overall risk assessment completed during the annual audit planning process.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April 2023	G	Approved by Audit Committee on 29 March 2023
	Annual Audit Report and Opinion	By end July 2023	G	2022/23 Annual Report and Opinion approved by Committee on 12 July 2023
	Customer Satisfaction Levels	90% satisfied	G	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	Annual: 90%	A	At the end of Q3, we had achieved delivery of 62.5% of the annual plan to draft report stage (against a pro-rata target of 67.5%). A high volume of work was in progress at the end of the quarter and delivery of the audit plan for 2023/24 is therefore not considered to be at risk at this time.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				<ul style="list-style-type: none"> • Excellent in: <ul style="list-style-type: none"> - Reflection of the Standards - Focus on performance, risk and adding value • Good in: <ul style="list-style-type: none"> - Operating with efficiency - Quality Assurance and Improvement Programme • Satisfactory in: <ul style="list-style-type: none"> - Coordinating and maximising assurance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	91% ¹

¹ Includes part-qualified staff and those in professional training

Appendix B

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

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Report to Audit Committee

27 March 2024

By the Horsham Chief Internal Auditor



INFORMATION REPORT

Not Exempt

Internal Audit Strategy and Annual Plan 2024/25

Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy and Annual Plan for 2024/25 to the Committee.

Recommendations

The Committee is recommended to:

- Approve the Council's Internal Audit Strategy and Annual Plan 2024/25.

Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Council Plan, Risk Registers, Audit Universe Risk Assessments, and supporting audit working papers.

Wards affected: All.

Report Author: Reem Burton, Horsham Chief Internal Auditor

Contact Details: Russell Banks, Orbis Chief Internal Auditor, 07824 362739
Reem Burton, Horsham Chief Internal Auditor, 07866 925290

Background Information

1 Introduction and Background

- 1.1 The Council's Internal Audit Strategy and Annual Plan 2024/25 (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focusing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

2 Relevant Council Policy / Professional Standards

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The strategy and terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed annually by the Audit Committee."

3 Next Steps

- 3.1 The Committee will be kept informed about progress in terms of the audit plan.

4 Outcome of Consultations

- 4.1 We have sought to focus our audit and assurance activity on supporting the delivery of the priorities set out in the themes within the Council Plan, namely:

- Supporting people and communities;
- Inspiring greener futures;
- Building a thriving local economy; and
- Always listening, learning and improving.

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Resource Consequences

- 6.1 This report summarises information about the work undertaken by Orbis Internal Audit on behalf of Horsham District Council, and there are therefore no direct financial or HR consequences.

7 Legal Considerations and Implications

7.1 There are no legal considerations or implications as this report is for noting.

8 Risk Assessment

8.1 All Internal Audit work is undertaken using a risk-based approach.

9 Procurement implications

9.1 There are no procurement implications arising as this report is for noting.

10 Equalities and human rights implications / public sector equality duty

10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

11 Environmental implications

11.1 There are no environmental implications as this report is for noting.

12 Other Considerations

12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

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Internal Audit Strategy and Annual Audit Plan 2024-2025



1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix B.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as "*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.*"

1.3 The organisation's response to internal audit activity should lead to a strengthening of the control environment, thus contributing to the overall achievement of organisational objectives.

2. Risk Assessment and Audit Planning

2.1 Horsham District Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the corporate and departmental risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The development of the annual plan for 2024/25 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2024/25 audit planning process:



2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's priorities, the audit plan has taken into account the key corporate priorities as set out within the Council Plan 2023-2027, which includes four themes:

- Supporting people and communities;
- Inspiring greener futures;
- Building a thriving local economy; and
- Always listening, learning and improving.

2.4 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- Key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal' or 'partial' assurance audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions; and
- Any reviews that we were unable to deliver during the previous financial year will be considered once again as part of our audit planning risk assessment and prioritised as appropriate.

2.5 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high priority agreed actions. The results of this work will be reported to the Audit Committee on a quarterly basis.

2.6 Since 2018, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to establish and develop the Orbis Internal

Audit Partnership. In so doing, we are able to deliver high quality and cost-effective assurance services to each of our partner and client councils, drawing upon the wide range of skills and experience from across the various teams. The size and scale of the partnership has also enabled us to invest in specialist IT Audit and Counter Fraud services, to the benefit of all clients.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. For 2024/25, a number of organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- The Capitol Theatre
- Horsham Museum
- Warnham Nature Reserve

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2024/25 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Project Management
- Risk Management
- Procurement
- Public Sector Equality Duty
- IT Asset Management

3.6 The results of all audit work undertaken will be summarised within quarterly update reports to the Senior Leadership Team, and the Audit Committee, along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy and Framework.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss. This will include leading on the National Fraud Initiative data matching exercise on behalf of the Council.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's governance, risk and control framework.

5.2 Orbis Internal Audit is contracted to provide 400 days to Horsham District Council for the provision of internal audit and counter fraud services.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical or specialist areas, externally provided specialist resources will continue to be utilised.

6. Audit Approach

6.1 The approach of Internal Audit is to use risk-based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of

generic areas where there are increasing demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2023/24 plan.
- Advice, Management, Liaison and Planning – an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 In delivering this strategy and plan, we will ensure that liaison has taken place with the Council's external auditors, Ernst and Young, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as numerous team members continuing with other professional training during 2024/25.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions

arising, will be reported to the Audit Committee, usually as part of the annual internal audit report.

8.4 The results of our latest external assessment, completed by the Chartered Institute of Internal Auditors (IIA) in autumn 2022, were reported to the Audit Committee in March 2023. Orbis Internal Audit was assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:

Excellent in:

- Reflection of the Standards
- Focus on performance, risk and adding value

Good in:

- Operating with efficiency
- Quality Assurance and Improvement Programme

Satisfactory in:

- Coordinating and maximising assurance

8.5 In November 2023 we completed an internal Quality Review, and no major areas of non-conformance were identified. The need to make some improvements to the quality of evidence contained within a small number of audit working papers was identified, which will be addressed at the auditor Development Day in spring 2024. We also updated our self-assessment against the PSIAS and were found to be fully complying with 319 of the Standards and partially complying with 2 of the Standards (in both cases proportionate arrangements remain in place).

8.6 For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- 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.

8.7 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.8 At a detailed level each audit assignment is monitored, and customer feedback sought. There are also ongoing performance and development reviews for all Internal Audit staff during the year to support them in achieving their personal targets.

8.9 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.10 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors’ Group and the Local Authority Chief Auditors’ Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 1: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end March 2024 To inform AGS by June 2024 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2024 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high priority actions
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Reem Burton
 Horsham Chief Internal Auditor
 March 2024

INTERNAL AUDIT PLAN 2024-25



Review Name	Outline Objective
Finance	
Budgetary Management	To review of all elements of the Council's budget management arrangements including budget setting, monitoring, forecasting, reporting, and savings targets.
Cash and Bank	To review the arrangements in place to manage receipt, recording, and reconciliation of monies received by the Council in respect of all services.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Treasury Management	To review the adequacy of key controls and procedures across the Council's treasury management functions, including cash flow forecasting, segregation of duties, financial investments, and the use of treasury advisers.
Key Governance Arrangements	
Finance – Corporate Compliance	Culture and ethical behaviour are an important aspect of the Council's control environment. This audit will include a review of roles and responsibilities, and awareness and compliance with corporate policies and procedures.
Member Interests	The purpose of this review is to ensure that there are effective corporate arrangements in place to manage conflicts of interest in relation to elected Members.
Procurement	This audit will use analysis of data from Council systems to seek assurance that, where aggregate spend on goods, services and/or works exceeds values set out in policy, the Council's Procurement Code has been complied with and can be reconciled with the Contracts Register.
Project Management	This review will seek assurance that the Council has in place a project management framework to support a consistent and proportionate approach to projects, including with regards to governance, monitoring, and reporting.
Risk Management	The purpose of this audit is to review the effectiveness of the corporate risk management strategy and procedures, and their application across departments

INTERNAL AUDIT PLAN 2024-25



**Horsham
District
Council**

Review Name	Outline Objective
	in particular following the introduction of a new risk management system.
Grant Certification	
Food Waste Collection	To check and certify the grant in accordance with the requirements of Defra.
Air Quality Grant	To check and certify the grant in accordance with the requirements of Defra.
Strategic Projects and Programmes	
Capitol Theatre	A major programme of works to refurbish the Capitol Theatre is due to commence in 2025. This review will seek assurance that robust governance and project management arrangements have been established to safeguard the Council's interests and ensure success of the project.
Lessons Learned	Following resurfacing works in one of the Council's car parks in 2023, this review will consider any potential lessons to be learned to help inform future works involving the commissioning of specialist services.
IT Audits	
IT Asset Management	This audit will review the Council's IT asset management arrangements to ensure that all significant assets are identified, recorded, and traceable. This review will seek to provide assurance over the whole life cycle of IT assets in use at the Council.
IT Backup and Recovery	This audit will evaluate the adequacy of backup and recovery provisions within the Council to ensure the resumption of activities in the event of a disruption to IT services and/or the need to rerun or restart a process.
Other Focus Areas	
Accessibility	The Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations 2018 place a duty on the Council to ensure its website and applications are accessible by as many people as possible. This review will consider the corporate procedures in place to address accessibility and other actions taken by the Council to meet requirements.
Horsham Museum	Horsham Museum houses a collection of art and artefacts of local, historical interest. A large volume of

INTERNAL AUDIT PLAN 2024-25



Review Name	Outline Objective
	items is also held in storage, and a disposals exercise is planned in 2025. The purpose of this audit is to consider the adequacy of the disposal plan including compliance with regulations as well as consultation and approval processes.
Housing Allocations	The purpose of this audit is to review the end-to-end process of housing allocations and seek assurance that there are procedures and systems in place to ensure properties are allocated in accordance with Council policies.
Public Sector Equality Duty	The Council is legally required to have due regard to certain equality considerations when exercising its functions. This audit will review the Council's arrangements to consider, assess, and monitor the impact of its decisions and activities on different people, and how this is demonstrated including through publication.
Taxi Licensing	The Council is responsible for licensing taxi and private hire drivers, vehicles, and operators within the district. This audit will evaluate whether the service is complying with legislative requirements and is operating in accordance with documented procedures, including in relation to income collection, inspection records, and data protection.
Warnham Nature Reserve	Warnham Nature Reserve is owned and managed by the Council while the Friends of Warnham Local Nature Reserve oversee day-to-day operations at the reserve. This review will seek to provide assurance that the partnership is supported by a robust governance framework and management structure.
Contingencies	
Counter-Fraud and Anti-Corruption	A contingency budget to allow work to be undertaken on fraud awareness and ad hoc investigations including in relation to financial irregularity, conflicts of interest and cyber fraud.
General Contingency	A contingency budget to allow work to be undertaken on new risks and issues identified by Orbis IA and/or referred by management during the year.
Service Management & Delivery	
Action Tracking	Ongoing tracking and reporting of agreed high priority actions.

INTERNAL AUDIT PLAN 2024-25



**Horsham
District
Council**

Review Name	Outline Objective
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling, and Orbis Audit Management meetings.
Audit and Fraud Reporting	Production of periodic reports to management and the Audit Committee covering results of all audit and counter fraud activity.
Audit Committee and Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings as appropriate.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance, and support on risk, internal control, and governance matters provided to clients and services throughout the year.
Organisational Management Support	Attendance and ongoing support to organisational management meetings (e.g. Corporate Governance Group, Risk Management, departmental team meetings).
Strategy & Annual Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

Other Potential Auditable Areas

Property Decarbonisation	These are potential audits that could be drawn into the 2024/25 annual programme of work on a risk-basis should other audits be postponed or deferred, or should available contingency time allow for it.
Sustainability	
Temporary Accommodation	



INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and be presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by the Senior Leadership Team and the Audit Committee. The Chief Internal Auditor for Horsham is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “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.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Procedure Rules, which form part of the Council's Constitution.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually, the Chief Internal Auditor is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities.

Internal auditors will not review specific areas of the Council's operation in which they have previously worked until a period of at least 12 months has elapsed.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council; and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy and Framework.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken, this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied;
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life: Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance, compliant with the PSIAS, is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;

- Operates in an effective and efficient manner; and
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the Council's Annual Governance Statement.

March 2024

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Report to Audit Committee

27 March 2024

By the Director of Resources

INFORMATION REPORT

Not exempt



Draft Annual Governance Statement 2023/2024

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2023/2024. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

Recommendations

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2023/2024.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by the Audit Committee

Background papers: The Annual Internal Audit Report.

Consultation:

Wards affected: All

Contact: Dominic Bradley, Director of Resources.

Attachments: Appendix A: Annual Governance Statement 2023/2024
Appendix B: Local Code of Corporate Governance
Appendix C: Governance Assurance Framework
Appendix D: AGS Action Plan 2023/2024
Appendix E: AGS Action Plan 2024/2025

Background Information

1 Introduction and background

- 1.1 The Accounts and Audit (England) Regulations 2015 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.
- 1.2 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.
- 1.3 Senior officers have been consulted and supporting documentation has been updated to reflect the current position.

2 Relevant Council policy

- 2.1 The Audit Committee is responsible for approving the Annual Governance Statement in accordance with the Committee's terms of reference.

3 Details

- 3.1 The draft Annual Governance Statement for 2023/2024 is attached in Appendix A. There are no significant issues or concerns.

4 Next steps

- 4.1 The Audit Committee is asked to approve the final version of the Annual Governance Statement at the June meeting.

5 Outcome of consultations

- 5.1 Key officers have been consulted when compiling the Annual Governance Statement, including the Senior Leadership Team; Monitoring Officer; Heads of Service; and the Chief Internal Auditor. In addition, Heads of Service have completed and signed Annual Assurance Statements covering their areas of responsibility.

6 Other courses of action considered but rejected

- 6.1 None.

7 Resource consequences

- 7.1 There are no direct staffing consequences arising from this report.

8 Legal consequences

- 8.1 Regulation 6 of The Accounts and Audit (England) Regulations 2015 requires that:-
6.—(1) A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

- (a) consider the findings of the review required by paragraph (1)(a)—
 - (i) by a committee; or
 - (ii) by members of the authority meeting as a whole; and
- (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—
 - (i) a committee; or
 - (ii) members of the authority meeting as a whole.

8.2 In 2016, CIPFA/SOLACE published a revised framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update and follows seven core principles of good governance. The Framework urges local authorities to review and report on the effectiveness of the governance arrangements.

9 Risk assessment

9.1 There are no risks associated with this report.

10 Procurement implications

10.1 There are no procurement implications from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 This report has no effect on equalities and Human Rights.

12 Environmental implications

12.1 This report has no effect on the environment.

13 Other considerations

13.1 This report has no effect on **GDPR/Data Protection**, or **Crime & Disorder**.

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Horsham District Council Annual Governance Statement 2023 - 2024

1. SCOPE OF RESPONSIBILITY

Horsham District Council conducts its business in accordance with the law, regulations and proper standards and it protects public money from waste, extravagance, or misappropriation. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it provides its services, focusing on economy, efficiency, and effectiveness.

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017. This is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. Residents and businesses can find a copy of the Local Code on our website. This statement explains how Horsham District Council complied with the Code during 2023/24 and how it meets the requirements of regulation 6(1)(b), the Accounts and Audit (England) regulations 2015 that require all relevant bodies to prepare an Annual Governance Statement.

2. THE GOVERNANCE ASSURANCE FRAMEWORK

Horsham District Council has a Governance Assurance Framework in place for the year ended 31 March 2024 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2023/24 financial year.

The Council's Governance Framework explains how the Council controls and manages its services and strategies to deliver the Council's aims and objectives.

The core principles of the Council's Governance Framework are:

A: Integrity; Ethical Values; the Rule of Law.

B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

C: Defining Outcomes including sustainable, economic, social, and environmental benefits.

D: Determining and planning interventions; to ensure delivery of intended outcomes.

E: Developing the capacity through leadership and other individuals.

F: Managing data, risks, and performance; robust internal control; strong public financial management.

G: Delivering accountability through good practice in transparency, reporting and audit.

3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES

The Council's Council Plan outlines the Council's vision, aims and objectives and aligns these with its Governance Assurance Framework. The Council approved its Council Plan on 11 October 2023 and covers the period 2023 - 2027.

- The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council Plan for Horsham which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims.

- The Council Plan is underpinned by an Annual Plan and is supported by the Medium-Term Financial Strategy and the Council's annual budget to ensure the implications on the Council's finances are considered when the objectives are set.
- Departmental strategies and service plans are developed which support the delivery of the Council Plan, by identifying how each department contributes to the delivery of the overall aims and objectives of the Council.
- The Council's performance management framework includes key performance indicators associated with the Council Plan. Performance on a basket of key corporate indicators is reported to the Senior Leadership Team, the Cabinet Leads and to the Overview and Scrutiny Committee.
- Every report submitted to the Cabinet or regulatory committees outlines how the recommended action helps to achieve one or more of the Council Plan priorities.

4. MEMBERS AND OFFICERS WORKING TOGETHER

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers. The Governance Committee leads on changes to the Constitution including the scheme of delegation.

The Leader, Cabinet Members, and Chairmen and Vice Chairmen of standing committees receive briefings from senior management on a regular basis and Members receive training as part of the induction process.

A review of governance arrangements at the Council was reported to Full Council on 27 April 2016. The Governance Review focused on ensuring Horsham District Council has the most suitable and effective governance arrangements. The Council continues to operate the Cabinet Executive Model supported by a number of Policy Development Advisory Groups. The Governance Committee completed a further review of the Constitution during 2018/19 with a particular focus on the effectiveness of planning and decision making. This was reported to Council in April 2019. During 2020/21 the Governance Committee completed a review of the role of the Policy Development Advisory Groups. In addition, the operation of the Constitution is under constant review by the Monitoring Officer in consultation with the Governance Committee to ensure that its aims and principles are given full effect. A Governance Peer Review was undertaken in January and February 2024, and the results will be fed into the 2024/25 action plan for implementation.

During 2023/24 the Overview and Scrutiny Committee carried out its work through the whole Committee with up to three Task and Finish Groups and no standing sub-committees.

The Council participates in a number of partnerships with other local authorities. In particular Revenues and Benefits, Building Control, Internal Audit and Procurement.

5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. All office-based officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020 and officers refreshed their declarations in January 2024.

Members' Registers are available on the Council's website. Members review their registers annually and all did new declarations in May 2023 following their election. Members ensure that if there are changes to their interests that the Monitoring Officer for the Council is notified of these changes. The Standards Committee promotes and maintains high standards of conduct by Councillors and also considers whether a complaint or allegation of misconduct by a Member should be investigated. The Council has appointed two Independent People in accordance with the Localism Act 2011. The Council has two Parish Representatives who attend the Standards Committee.

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year. A staff survey was completed in December 2021 that forms the basis of the organisational development programme. Another staff survey is due in 2024/25.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities.

The Council has the following policies and procedures in place which aim to prevent or deal with any instances of fraud, dishonesty, or malpractice.

- Counter Fraud Strategy and Framework
- Anti-Money Laundering Policy
- Whistleblowing Policy
- HR Disciplinary Policies
- Council's Equality Scheme
- Information Security Policy

The Council's IT Security Officer updated the Council's Information Security Policy during 2022/23. In February 2022, the Council obtained a significant Government grant for enhancing its cyber security measures in the light of increased risk levels following the invasion of the Ukraine. We have spent the money implementing an improved backup solution for the Council's IT Systems. A phishing training exercise was undertaken in 2024.

6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

The Council's Risk Management arrangements are reviewed for effectiveness by the Audit Committee to ensure the process is embedded in the culture of the Council.

All Heads of Service are responsible for implementing strategies at departmental level ensuring adequate communication, training and the assessment and monitoring of risks.

All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process. Each Directorate Management Team reviews their service risks each quarter and each Project Team their Project Risks no less than once a quarter. An officer-led Risk Management Group reviews the corporate risk register quarterly before it proceeds to the Senior Leadership Team and the Audit Committee for review.

The Chief Internal Auditor provides an annual opinion on the Council's governance arrangements, risk management systems and the overall control environment in his end of year report to the Audit Committee.

7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from their recorded "conversation" with their manager. All new recruits have a series of basic courses in key areas such as health and safety, data protection, IT security, Governance and GDPR which they must complete before they pass their induction, and all staff complete an annual refresher in these core subject areas.

New Members to the Council receive induction training in key areas including the Constitution, ethical governance, decision-making processes, and the Council's Code of Members' Conduct. The induction also includes an introduction to the Council's services. All new Members are allocated a 'buddy' who is a senior Council officer tasked with helping the new Members to settle into the Council. There is an ongoing training programme of Member briefings on important areas of the Council's work. There is also ongoing training covering specific issues in a variety of areas.

8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

The Council works hard to communicate its aims for the District. It conducts a wide range of service specific surveys to ascertain the views and needs of its residents. The Council consults with Parish Councils. It is a leading partner within Community Safety and Health and Wellbeing Partnerships, linking statutory and non-statutory agencies to provide a coordinated approach to delivery of the programme across the District. The Council works with voluntary and community sector partners to ensure effective provision of community engagement activities across the district. These partnerships share feedback from their own stakeholder consultations.

These groups help the Council to assess the priorities of different sections of the community that have different needs, particularly surrounding grants and funding, Parish Councils and areas that need targeted service delivery. Compliments and feedback received are monitored and reported to the Overview and Scrutiny Committee as part of the quarterly performance management report.

9. DETAILS OF KEY GOVERNANCE MECHANISMS

Sources of assurance received for each of the core principles are set out in the Horsham District Council's Local Code of Corporate Governance. (See Appendix B).

10. WHOLLY OWNED BODIES

The Council owns 100% of a housing company, Horsham District Homes Limited, which owns 100% shares of a holding company, Horsham District Homes (Holdings) Limited.

The Council's Director of Communities, the Head of Housing and Community Services, the Head of Property and Facilities and the Head of Finance and Performance are directors of Horsham District Homes Ltd. This company builds domestic dwellings.

The Council's Director of Communities, the Head of Property and Facilities, the Head of Housing and Community Services, and the Head of Finance and Performance are directors of Horsham District Homes (Holdings) Ltd. This company lets and operates owned or leased real estate.

The Cabinet and Full Council make decisions relating to these subsidiaries. Full Council approves funds for the companies to operate. These are loans and equity within the development company. Full Council considers any land disposals to the development company that trigger Secretary of State sign-off requirement. The Cabinet reviews each individual development business case and approves the allocation of S106 commuted sums funding to enable the property holding company to acquire the built units from the development company.

11. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's governance framework includes decision-making processes set out in the Council's Constitution, together with rules and procedures. The Council operates the Cabinet Executive Model.

Mechanisms for maintaining and reviewing the effectiveness of the Council's governance arrangements throughout the year include:

- The Council comprises 48 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council.
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards. In addition, annually the Committee considers a report providing an overview of complaints made against the Council to the Local Government and Social Care Ombudsman.
- The Governance Committee meets as and when required and reviews governance with regard to the reviewing and revising of the Council's Constitution.
- The Audit Committee meets quarterly to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.

- The role of the Director of Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.
- The Head of Legal and Democratic Services (as Monitoring Officer) has a duty to ensure that operations are carried out lawfully. This post also carries out the statutory Data Protection Officer role.
- An annual internal audit plan is developed, in consultation with senior managers, which outlines the assignments to be carried out and estimated resources. The audit plan is sufficiently flexible to enable the Orbis Partnership Internal Audit team to respond to changing risks and priorities of the organisation.

12. IMPROVEMENTS DURING THE YEAR

The 2022/23 Annual Governance Statement included an action plan for 2023/24. Progress against the risks identified is reported in Appendix D. The following improvements to the Governance Framework were recognised during 2023/24:

- Charity / not for profit reductions and discounts policies introduced
- Wider review of the Constitution underway
- Earlier engagement with procurement across the Council in preparation for the New Procurement Regulations
- Embedding the tracking and sign-off of Cabinet decision reports through Modern.gov. and report writing
- Embedding a culture of anti-bullying and harassment
- Raise awareness, enhance understanding, and ensure compliance with PSED (Public Sector Equality Duty)

13. MINOR GOVERNANCE ISSUES DURING THE YEAR

The minor issues identified during 2023/24 included:

- The Council did not have a formal concessions policy until one was approved by Cabinet in July 2023
- A supplier informed us that some names and addresses information stored on the hosting service in a deleted folder had potentially been capable of being accessed by unauthorised persons and was reported to the Information Commissioner's Office by the supplier and by Horsham District Council. The Information Commissioner's Office has confirmed no further action is required regarding HDC's compliance.
- A second supplier informed us that files containing names and addresses processed through a file transfer system may have been compromised for twenty minutes. This was reported to the Information Commissioner's Office by the supplier and by the two other Local Authority Councils involved.
- A third supplier informed us of a ransomware attack on their data which was settled. The supplier then rebuilt their servers in a clean environment. This was reported to the Information Commissioner's Office by the supplier and by Horsham District Council. No personal data was recorded as breached. The Information

Commissioner's office has confirmed no further action is required regarding HDC's compliance.

- Annual passes to one venue were not being charged at the rate approved by Councillors.
- A payments file containing a small number of payees for the Energy Bills Support Scheme was paid twice in error, causing additional work to reclaim the monies.

Once found, Management investigated these issues in the normal way and took remedial action where needed.

The number of partial or minimal internal audit assurances is back at a normal (low) level. All audits are reported to the Audit Committee who review the actions proposed to resolve high priority issues.

14. SIGNIFICANT GOVERNANCE ISSUES

This year there were no significant issues that needed immediate reporting to the Audit Committee.

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council and the level of non-compliance is beginning to return to normal. We have put in place an action plan to increase officer awareness and reduce the frequency of this type of issue.

Signed

.....
Leader of the Council

.....
Chief Executive

On behalf of the Members and senior officers of the Council

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Appendix B - HDC Code of Corporate Governance

HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE

Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

The Council's behaviours and actions that demonstrate good governance are set out in response to the CIPFA core principles.

A: Integrity; Ethical Values: the Rule of Law

- Member and Officer Codes of Conduct are included in the Constitution setting out the values and behaviours that the Council requires Members and officers to adopt.
- Rules of Procedure govern the expected conduct at meetings of the Council and its committees.
- The Counter-Fraud Strategy & Framework is designed to encourage and promote the prevention and detection of fraud.
- Member and Officer Registers of Interests, Gifts and Hospitality safeguard both Members and officers against conflicts of interest.
- The Whistleblowing Policy ensures anyone with a concern can have confidence that it will be dealt with appropriately.
- All officers have a regular logged conversation with their manager at which behaviours and matters of integrity can be addressed informally.
- The Council's disciplinary process addresses officer breaches of good conduct.
- The Standards Committee considers complaints or allegations made against Councillors, as required by the Localism Act 2011.
- In accordance with 'Working Together to Safeguard Children 2015' and 'The Care Act 2014', we recognise the need to ensure the welfare of all individuals when they come into contact with services provided by the Council.



B: Openness; engaging with institutional stakeholders; engaging with individual citizens and service users.

- The Constitution sets out how the Council operates, how decisions are made and the procedures and codes of conduct that are followed.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- The Audit Committee is independent of Cabinet and Scrutiny functions. It receives reports on the work of External and Internal Audit and Risk Management and reviews serious Governance breaches.
- The Governance Committee reviews and updates the Council's Constitution.
- The Council supports local communities that produce their own Neighbourhood Plans providing a vision for their area.
- The Council engages with the public in a number of public consultations. These are publicised on the Council's website and the feedback informs the Council's decision making process.
- The majority of the Council's meetings are open to the public. The Forward Plan, Agendas, papers and minutes are published on the Council's website.
- The Council recognises that supporting and engaging communities is a shared agenda with many partners including West Sussex County Council, the Police, the Health Service and the community and voluntary sector. Working together we are all committed to ensuring Horsham District remains a great area to live and work.
- Senior management communicates with staff by means of regular cascade meetings organised by the Senior Leadership Team: Director's meetings; Team meetings; All Staff Briefings; the "Council Matters" publication and weekly Leadership Team feedback.
- Consultation takes place with Parish Councils and other Voluntary and Community groups throughout the District to ensure effective provision of community engagement activities.

C: Defining Outcomes; sustainable, economic, social and environmental benefits.

- The Council Plan for the period 2023-27 is published on the Council's website identifies key priorities.
- Departmental Service Plans and worklists break down and monitor the objectives of the Council Plan with quarterly reports to Overview & Scrutiny Committee.
- The Council ensures objectives are deliverable by producing a Medium Term Financial Strategy and detailed financial budget plans.
- Progress against the Council's aims and objectives is monitored through its performance management framework and reported to management and Overview & Scrutiny Committee.
- The Council identifies and manages any corporate and departmental risks to achieving its objectives through its risk management process and issues regular reports to senior management and Audit Committee.
- Value for money is driven through the Council's Corporate Procurement Code.
- Information relating to Council plans and initiatives is published via its website, email updates, social media and the Horsham District news magazine.

D: Determining and planning interventions; optimising achievement of intended outcomes.

- The Medium Term Financial Strategy is updated at least twice a year and takes into account changes in the financial outlook. It is used as a basis for the annual budget setting process in which all Heads of Service reconsider their departmental budgets. The Annual Budget and Council Tax rate are approved by full Council before the start of each financial year.
- Progress against the budget and key performance indicators are reviewed and reported quarterly to Overview & Scrutiny.
- The Council continually investigates alternative models of service delivery to improve efficiency whilst meeting the needs of customers.
- The Council is working with Community and Voluntary sector partners to develop projects and deliver efficient and effective services.
- The Council's Technology Strategy was updated during 2020-23 and the Digital Strategy introduced ensure service delivery is supported efficiently and flexibly.
- Benchmarking against others provides information that assists the Council to design services that are fit for purpose by looking at options to improve delivery.

F: Managing risks; managing performance; robust internal control; managing data; strong public financial management.

- Decision making protocols are set out in the Council's Constitution.
- Agendas and minutes of Council/Committee meetings are published on the Council's website and include details of decisions taken.
- The Overview and Scrutiny Committee reviews the Council's decision making processes and monitors the internal and external delivery of services.
- Budget monitoring processes are in place and a summary of the Council's financial position is reported to senior management monthly and to Members quarterly.
- The Council has an established Risk Management Strategy and embedded Risk Management processes. Corporate and Departmental risks are formally reviewed quarterly.
- The Horsham Chief Internal Auditor reports to the Audit Committee. Audit work is planned to ensure there are robust systems of internal control in place to mitigate risks and provide assurance to senior management and Members.
- The Audit Committee meets four times a year to review the effectiveness of the control environment and risk management framework.
- An officer Corporate Governance Group oversees the Council's Governance arrangements.
- A complaints procedure is published on the Council's website. Quarterly monitoring reports are submitted to senior management and Members.
- The Council has policies covering information and data security and guidance is available for all staff on the Council's Intranet.

E: Developing the capacity of the entity through its leadership and other individuals.

- The Constitution sets out how the Council operates; how decisions are made and which Codes of Conduct are followed. The roles of Members are clearly set out and a Member/Officer protocol is included.
- A Scheme of Delegation in the Constitution determines the levels at which decisions are taken.
- Detailed regulations in the Constitution (for example Financial Procedure Rules and Contract Procedure Rules) require officer compliance.
- Managers monitor officer performance and development through regular recorded conversations that support workforce planning. The process also identifies an individual's training needs. The Disciplinary and Capability Policies outline the formal processes for managing officer non-compliance.
- The Standards Committee deals with issues relating to Member performance.
- Partnership agreements are in place for each of the Council's strategic partnerships and managers hold regular meetings to monitor the agreements.
- An employee scheme of assistance is available to all employees.
- An induction training programme is in place for both Members and employees.
- Regular Senior Managers' Forums and all Managers' Conferences enable managers to meet to consider current issues affecting the Council and to work together to identify solutions.

G: Good practice in transparency, reporting and audit to deliver effective accountability.

- All committee agendas, papers and minutes are available to the public on the Council's website.
- The Council publishes its Audited Annual Accounts and Annual Governance Statement including an action plan for improvement for any areas of concern.
- All external audit reports are published and corrective action is taken to address any issues highlighted as necessary.
- The Council has an effective Internal Audit service which reports to the Audit Committee. Progress to implement agreed actions for improvement in control processes is monitored and reported to Members.
- Delegated partnership arrangements are effectively monitored by senior managers through monthly meetings and Partnership Boards where the Council is a full partner.

GOVERNANCE ASSURANCE FRAMEWORK



Assurance Framework Documentation

- Constitution
- Code of Conduct
- Complaints Procedure
- Equalities Scheme
- Head of Service Assurance Statements
- Media Protocol
- Financial Policies & Procedures
- Risk Management Strategy & Toolkit
- Risk Registers
- Performance Framework

- Employee Policies
- Pay Policy
- Counter-Fraud Strategy & Framework
- Whistleblowing Policy
- Annual Internal Audit Report & Opinion
- Statement of Accounts
- Annual Audit Letter from External Audit
- Annual Complaints Report
- Report of Local Government Ombudsman
- Results of External Inspections

- Council Plan
- MTFS & Budget
- Money Laundering Policy
- Partnership Agreements / SLAs
- Treasury Management & Investment Strategy
- Procurement Code
- Values & Behaviours
- Information Security Policy

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**APPENDIX D:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2023/24**

No.	Area for Improvement	Actions	Responsible Officer	Target Date	Status update
1a	Constitution involving approval of charity / not for profit reductions and discounts, as well as all decision thresholds.	Review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2023	Completed.
1b	Wider review of the Constitution	Review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2024	A Governance peer challenge was undertaken in February 2024, which will help feed into the wider review of the constitution. Ongoing into 2024/25.
2	Earlier engagement with procurement across the Council, to improve the process and reduce the number of procurement exemptions.	Further training and Procurement advice. Formal procurement sign-off built into the online exemption process.	Head of Procurement Digital Communications Manager	30/09/2023 30/06/2023	Completed. Completed.

3	New Procurement Regulations.	Review and revise framework as appropriate and provide training to officers.	Procurement Manager / Head of Legal and Democratic Services	31/12/2024	Procurement Act delayed until October 2024. Training planned once contents of the Act have been confirmed and Bill has received Royal Assent. Ongoing into 2024/25.
4	Roll out of tracking and sign-off of Cabinet decision reports through Modern.gov. and report writing	The new Modern.gov process will be embedded so that it operates effectively.	Head of Legal and Democratic Services	29/02/2024	Completed.
5	The Council's management of bullying and harassment.	Dignity at Work will be embedded into the culture of the organisation.	Head of HR & OD; Head of Strategic Planning; Head of Leisure & Culture; and the Head of Economic Development	31/12/2023	Completed.
6	Raise awareness, enhance understanding, and ensure compliance with PSED (Public Sector Equality Duty).	Enhancing understanding of and providing training in relation to the organisation's public sector equality duty to ensure general compliance	All Heads of Service	31/06/2024	An Equality Impact Assessment workshop was held on 1 November 2023 to raise awareness to Heads of Service and key report writers and budget holders. Further training will be held in 2024. Ongoing into 2024/25.

**APPENDIX E:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2024/25**

No.	Area for Improvement	Actions	Responsible Officer	Target Date
1	Wider review of the Constitution	Implementing the outcomes of the February 2024 Governance Peer Review, review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2024
2	New Procurement Regulations.	Review and revise framework as appropriate and provide training to officers. Procurement Act delayed until October 2024.	Procurement Manager / Head of Legal and Democratic Services	31/12/2024
3	Raise awareness, enhance understanding, and ensure compliance with PSED (Public Sector Equality Duty).	Enhancing understanding of and providing training in relation to the organisation's public sector equality duty to ensure general compliance	All Heads of Service	31/12/2024
4	Raise awareness of cyber security and data breaches	Training, including phishing follow up training to all officers and Councillors.	Head of Digital and Comms. Information Governance Officer	30/06/2024

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Report to Audit Committee



Date 27 March 2024

By the Director of Resources

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that Members understand the key risks facing the Council.

Background Papers

Corporate Risk Register

Wards affected: All.

Contact: Dominic Bradley, Director of Resources, 01403 215300.

Background Information

1 Introduction and Background

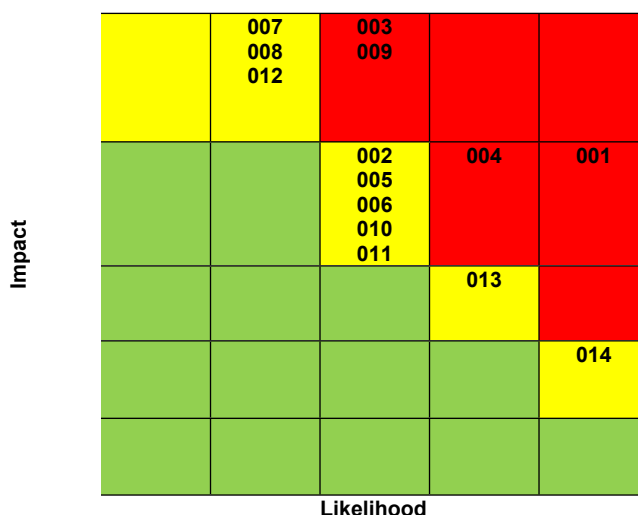
- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see Section 3 below).

2 Relevant Council Policy

- 2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:
 - Fully integrate risk management into the culture of the Council and its strategic and service planning processes.
 - Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned.
 - Ensure the benefits of risk management are realised through maximising opportunities and minimising threats.
 - Ensure consistency throughout the Council in the management of risk.

3 Details

- 3.1 The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).
- 3.2 The Corporate risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.



3.3 There are four risks which are currently considered to be high and ten considered medium. The high-risk areas relate to the following:

001	The Benefit Subsidy claim may be qualified and/or financial losses.
003	Lower levels of income in fees and Government funding, with increased inflationary costs and costs from higher levels of homelessness and housing benefit claims, making balancing the 2025/26 budget more difficult.
004	Funding from Government is less generous than assumed in the MTFS from 2026.
009	Adopting an up-to-date Local Plan by end of 2025. Adverse outcome of Kilnwood Vale inquiry re access to SNOWs / Local Plan delivery.

3.4 The risk register in Appendix 1 provides full details of all risks on the “live” register together with details of the control actions and responsible officers.

3.5 Since the last publication of the following risks have been scored differently, falling from red to high amber:

- 002 recruitment and retention has decreased to a medium risk, as three Heads of Service posts have been filled and the actions being undertaken to retain and train staff are maintaining the Council’s level of vacancies at a stable and manageable level currently.
- 011 A malicious attacker exploits a known or unknown security weakness to penetrate the Council’s ICT systems is being managed through heightened awareness training, accreditation checks, improving controls and back-up processes, patching and updates.
- 012 The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency has also been rescored and fallen from medium to low. Actions have been taken to improve plans and train and test key staff sufficiently to mitigate the risk to a lower likelihood.

3.6 Since the last publication of the following risk has risen from amber to red:

- Adopting an up-to-date Local Plan by end of 2025. This risk reduced when the Local Plan progressed to Regulation 19 but the position taken by Natural England, which prevents new development taking place that is not water neutral is being challenged by developers through the Kilnwood Vale Inquiry. The risk has increased because if there is an adverse outcome it allows speculative development access to SNOWs, which in turn impacts Local Plan delivery.

3.7 All 17 departmental risk registers have been reviewed and updated.

3.8 There have been two additional risks added to the corporate risk register.

- Climate change: Climate change is leading to increasing annual rainfall, but in more intense rain events. Warmer annual average temperatures including peaks of excessive heat in the summer. This is beginning to have impacts on the Council's service provision and residents.
- Elections: Challenging processes and requirements during the general election

4 Outcome of consultations

- 4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other courses of action considered but rejected

- 5.1 Not applicable.

6 Resource consequences

- 6.1 There are no financial or staffing consequences as this report is for noting.

7 Legal considerations and implications

- 7.1 There are no legal consequences as this report is for noting.

8 Risk assessment

- 8.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council's Corporate Risk Register.

9 Procurement implications

- 9.1 There are no procurement implications arising from this report as this report is for noting.

10. Equalities and human rights implications / public sector equality duty

- 10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

11 Environmental implications

- 11.1 There are no environmental implications as this report is for noting.

12 Other considerations

- 12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

#	Risk Description	Risk Cause	Risk Effect	Risk Owner	Current Risk Matrix	Controls	Target Risk Matrix	Quarterly Update
9901	<p>Title: The Benefit Subsidy claim may be qualified and/or financial losses.</p> <p>Risk: HDC has a case load with a particularly high number of working people with many changes of circumstances</p>	<p>The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors.</p>	<p>Financial Service Delivery Compliance with regulations Reputation</p>	<p>Dominic Bradley</p>		<ol style="list-style-type: none"> 1. Continuously monitor the level of quality control checking. 2. An earmarked reserve for subsidy provision is now in place that would cover the loss of subsidy in the event that the upper threshold in the subsidy claim is breached. 		<p>Pressure has been building in the service since the outbreak of Covid-19. In 2021/22, the HB subsidy loss breached the lower (but not upper) threshold at a cost of £65,416. Subsequently, £15,301 was offset by the DWP through underlying entitlement.</p> <p>As part of a commitment to continued service improvement, including staff development, 2022/23 and 2023/24 has seen an increased amount of quality assurance measures in year. These increased measures have also been a result of the issues identified in the 2021/22 audit, as well as areas for improvement identified in some of the quality review deep dives.</p> <p>This has resulted in the increased identification of error at the pre-audit stage. Around 60% of the LA error identified in 2022/23 was legacy error carried forward from the CenSus partnership.</p> <p>In 2022/23, a 0.58% Local Authority error rate breached</p>

the upper threshold of 0.54%. This means that the pre-audit position is at a cost of £122,925. The 2022/23 audit is being finalised in March 2024, and from the draft findings, we now expect the final subsidy loss to be £191,235 after extrapolations..

The risk for 2023/24 is that errors and extrapolations identified in the 2022/23 audit increase the loss of subsidy further. The forecast LA error for 2023/24 at M10 is for a pre-audit figure below the lower threshold, but with little headroom, meaning the risk remains high as any error large or extrapolated error would result in a further loss of subsidy.

Title:
Recruitment
and Retention

Risk: (Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Planning and Tech. Failure to have resilience in the staff structure, and so lacking the right number of staff with the right skills to deliver services, along with unrealistic expectations of services.

Linked to national shortage of labour in some sectors as well as experienced professionals leaving the public sector for retirement or better pay in the private sector. Capacity problems increase turnover and absence and adversely affect wellbeing and productivity levels.

Adverse effect on morale

Financial

Failure to achieve agreed business objectives

Compliance with regulations
Complaints / claims / litigation

Stress and absenteeism

Dominic Bradley

Robert Laban



1. Workforce planning, training and development, growing your own, leadership and management programmes, apprenticeships, coaching, supporting skills and qualifications are all activities undertaken.
2. Efficient and effective recruitment processes, enhancing the employer brand, recruitment benefits, such as relocation package, flexible and hybrid working, market supplements and review of pay point spinal column.
3. Regular staff survey to be undertaken and action plans progressed.
4. Review options for alternative solutions, e.g. investigating Horsham weighting allowance, increasing efficiencies in process and transformation through automation, or job redesign etc.



Recruitment and retention in key services such as Legal, Building Control, Planning and Technology Services has resulted in locums and vacancies, resulting in delays in delivering workloads.

Some service priorities are not being delivered as quickly as the Council would like. Capacity issues slow down delivery of the capital programme.

Building Control now has three trainee posts filled, plus a further trainee lined up for September 2024.

Three Head of Service recruitment campaigns have been successful, and all senior roles are filled. Legal remains a difficult to recruit area, given the significant salaries that can be achieved in the private sector. The use of legally trained support staff has eliminated some pressures.

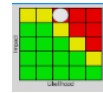
Title: Rapidly rising costs and lower income. making balancing the budget more difficult.

Risk: Lower levels of planning fees & property income. Increased costs from inflation and from higher levels of homelessness and housing benefit claims. The impact on the financial markets and the pound could bring forward the next recession slowing down the housing market.

Cause: Uncertainty in the UK and World economy. Higher levels of salary and non-salary costs from inflation. Impact on the financial markets and the pound in the wake of war in other countries and the energy crisis. Likelihood of a deeper depression and slowdown in the property and financial markets.

Financial Service Delivery Compliance with Regulations

Dominic Bradley
Samantha Wilson



1. Monitor the external environment
2. Monitor internal indicators, particularly costs from inflation, income generation and respond appropriately to adverse trends



Rising inflation rates have increased cost pressures in utility and maintenance costs, HVO fuel and vehicle parts as well as increased staffing costs and increased housing demands. Lower levels of income are being felt in investment property rents as well as planning and building control as water neutrality restricts development. Pressure is also building on homelessness and benefits cases. These cost pressures are currently being offset by additional income from our investment activities.

The 2023/24 forecast outturn is a £0.35m surplus for the year at month 10. Spending our reserves for social and wellbeing gain, without achieving a revenue return, such as the Capitol refurbishment will increase the pressure over the medium term. Budget shortfalls of £3m+ a year are forecast once we introduce food waste collection.

Funding from Government is less generous than assumed in the MTFS from 2026

The Council is reliant on centrally controlled Government funding.

Reductions in funding

Adverse effect on morale

Financial

Failure to achieve agreed objectives

Dominic Bradley

Samantha Wilson



1. Continue to keep a watching brief
2. Revisit the MTFS and if necessary 2024/25 budget in year.
3. Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g. Corporate Restructure, cuts to quality and / or non-statutory services, investment and infrastructure projects that generate income.



Government have finalised a 'same again' single-year settlement for 2024/25, postponing the risk of changes to business rates and revenue funding through the wider Funding Review for the short term, albeit temporarily.

For 2023/24, Council tax rises, higher investment income from the rise in the Bank of England base rate and some inflationary rises to fees have balanced the budget and mitigated the cost pressures from inflation and salaries. For 2024/25 The Council has thoroughly reviewed income and expenditure and will set a balanced budget, albeit using £0.6m of the Funding Guarantee grant from Government. However, a £3.7m budget deficit is forecast at the end of the MTFS, if we implement food waste before the statutory deadline March 2026 and / or spend our reserves without achieving a revenue return such as on the Capitol Theatre refurb. The gap will only get larger if the funding cuts are sharper than anticipated.

Funding from Business Rates is less generous than assumed in the MTFS from 2026

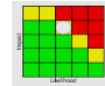
The Council is reliant on Central Controlled Government funding on Business Rates and Government raising the baseline. Decrease in Rateable Value due to appeals and businesses failing. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.

Financial Cause: The Council is reliant on Central Controlled Government funding Business Rates). Government re-baselines less favourably, or businesses start to fail and the RV falls below the baseline.

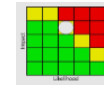
Reductions in funding Financial Adverse effect on morale Failure to achieve agreed objectives

Dominic Bradley

Samantha Wilson



1. Continue to keep a watching brief.
2. Revisit the MTFS & if necessary 2024/25 budget in year
3. Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g. Corporate Restructure, cuts to quality and / or non-statutory services, investment and infrastructure projects that generate income.



Government have finalised a 'same again' single-year settlement for 2024/25, postponing the risk of changes to business rates and revenue funding through the wider Funding Review for the short term, albeit temporarily.

The Rateable Value listing remains higher than it started, which retains a greater share of the business rates funding in the Sussex Pool area.

Title: Non-compliance with control procedures.

Risk: Officers are either unaware of expected controls or do not comply with control procedures.

Governance Managers are responsible for ensuring that controls to mitigate risks are consistently applied.

Failure of business objectives

Health & Safety

Financial

Service Delivery

Compliance with Regulations

Personal Privacy Infringement

Reputation damage

Dominic Bradley



1. Officer training
2. All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)
3. "Cultural compliance" Internal Audits identify service based issues and help managers to resolve these.
4. Programme of training and information to ensure all managers understand their roles.

The Annual Governance Statement actions in the 2023/24 action plan are being implemented. Two were carried through from 2022/23 where progress was made, but are being embedded in 2023/24:

- Training and roll out of tracking and report sign off through Modern.gov is in progress.
- The Council's management of bullying and harassment is well underway, with training and workshops held, and policies updated, but the awareness and learning are not yet fully embedded.
- Procurement training is being delivered to services. Procurement will see significant changes when the revised Procurement Act is introduced in October 2024.

The internal audit opinions issued to date in 2023/24 have either been substantial or reasonable.

Title: Health & safety.	Physical Cause: The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control.	People come to harm Complaints / claims / litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Dominic Bradley Robert Laban
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1. H&S Management Forum reviews corporate inspection strategy and all other H&S issues quarterly. An audit programme is in place to provide assurances on varying aspects of managing H&S. A Personal Safety of Staff and Lone Working audit completed in Q3 gave Reasonable Assurance.
2. Training programme includes annual refreshers on a rolling programme. All mandatory H&S training must be completed as part of probation. Compliance is monitored centrally by the HR service.
3. Risk assessments undertaken and reviewed as required.
4. H&S Officer regularly reviews high risk areas personally.

Risk assessments are being undertaken, reviewed, and updated. Refresher training on e-learning for all staff has been set for Fire Safety, starting in mid-November 2023 with reminders being sent to staff.

A Personal Safety of Staff and Lone Working audit has suggested Reasonable Assurance.

Title: Key Contractor Failure

Risk: Key contractor failure

Uncertainty in the UK and World economy. Instability and high-profile failures.

Financial

Dominic Bradley



1. Regularly check accounts of key suppliers
2. Check public liability insurance of key suppliers
3. Ask for key suppliers' business continuity plans
4. Consider whether the failure of a key supplier needs to go in service business continuity plan



The impact of the world shortage of building supplies remains uncertain.

Risk of inflation (now falling), interest rates, and recession are being monitored. Some suppliers are starting to come forward to increase prices outside of the contract, which is being resisted. So far, the Council has only terminated one contract by mutual agreement with the supplier.

Key contracts are reviewed as part of the ongoing contact management arrangements and officers have been reminded to check the financial health of key suppliers and be ready for Plan B.

Title:
Adopting an
up to date
Local Plan by
end of 2025

Risk:
Delay to plan
preparation
due to the
requirement
of the plan to
demonstrate
water
neutrality, or
as a result of
significant /
unexpected
changes to
government
guidance.

Risk:
Adverse
outcome of
Kilnwood Vale
inquiry re
access to
SNOWs /
Local Plan
delivery.

Requirement to
adopt an up-to-
date Local Plan
by end 2025 in
accordance with
government
requirements

Economic and
environmental
damage to
district as a result
of limits to
development
which can take
place.

Council loses
control over
SNOWs
prioritisation
Significant risk of
speculative
development
prior to adoption
of local plan, with
impact on Local
Plan trajectory
and how this may
be defended at
the Local Plan
examination.

Dominic Bradley

Catherine Howe



1. Joint working with partners to develop water neutrality mitigation strategy
2. Keep watching brief on government messaging on planning reforms
3. Sufficient staff and budgetary resourcing to support progression through regulatory stages of consultation, evidence base preparation and examination
4. Officers defended case with legal support at Inquiry which commenced 11/03/24. Ultimately decision making is a matter for the inspector



A water Neutrality project Manager is now in post and is developing the Sussex North Offsetting Water Neutrality Scheme (known as SNOWs), with recent government funding agreed (£0.250m) to support this project. However given the ground breaking nature of this projects there are many unknowns and uncertainties. However, the risk has reduced and the Local Plan has progressed to regulation 19 publication stage.

Title: Data security

Risk: Major data breach or leak of sensitive information to a third party.
Risk 1: Major data breach or leak of sensitive information to a third party.

Risk 2: Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).

Managerial / Professional Cause: The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018.

People and businesses come to harm and suffer loss that might not otherwise have occurred
Complaints / claims / litigation
Resources consumed in defending claims
Financial losses
Fines from regulators
Adverse publicity
Reputation damage

Dominic Bradley

Andrea Curson



1. Develop appropriate processes & procedures which underpin the IT Security Policy
2. Provide a programme of Induction and at least annual training on Information Security to all staff.
3. Annual PSN Accreditation
4. Representatives from each department meet every other month to maintain compliance, updates and training



The situation is being monitored and training for phishing attacks has increased and specialist Election training has also been undertaken.

Risk rating has increased though due to the external environment and security concerns associated with it and Council operations.

Three minor information breaches have occurred to the Council's third parties in 2023/24, which are being managed by the third parties.

Title: Cyber security and business continuity

Risk: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.
 Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.

Risk 2: IT not working due to environmental and economic problems:

Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.

Loss of key systems- disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.

Dominic Bradley
 Andrea Curson



1. Awareness of current threats
2. An effective ICT Service delivery team
3. Effective patching and updates to mitigate known vulnerabilities
4. Compliance with expected security standards. (PSN, PCI-DSS)
5. Effective policies in place which outline security requirements for users of ICT
6. Effective back-up and recovery processes in place for Council ICT systems.
7. Transferring the risks to the cloud provider
8. Plan developed, approved internally and being carried out.



Ongoing, as part of induction for new staff/ Members, and as required.

We are following government advice re heightened Cyber Security Threats.

PSN Accreditation is being worked on for 2024.

Backups have been reviewed and improved.

An internal audit in October 2023 gave Reasonable Assurance in respect of Cyber Security – Response & Resilience, identifying one medium issue to test the effectiveness of the Security Incident Procedure through a desk top exercise.

fire, flood,
power cut and
issues with
the supply
chain
preventing
new
infrastructure
arriving in a
timely
manner.

Title:
Civil
emergency

Risk: The
Council is
found to have
failed to fulfil
its obligations
under the Act
in the event
of a civil
emergency.

Legal
Cause: The Civil
Contingencies
Act places a
legal obligation
upon the
Council, with
partners, to
assess the risk
of, plan, and
exercise for
emergencies, as
well as
undertaking
emergency and
business
continuity
management.
The Council is
also responsible
for warning and
informing the
public in relation
to emergencies,
and for advising
local businesses.

People and
businesses come
to harm and
suffer loss that
might not
otherwise have
occurred

Complaints /
claims / litigation

Resources
consumed in
defending claims

Financial losses

Censure by
regulators

Reputation
damaged

Dominic Bradley

Robert Laban



1. Update corporate
business continuity
plan and regular
review.
2. Update departmental
business continuity
plans and regular
review.
3. Bitesize workshops to
address new
procedures and
processes.



Plan is up to date. All
Neighbourhood Wardens have
been trained as Rest Centre
Managers and are earmarked
for Incident Liaison Officer
training later in the year to
provide a tactical response at
bronze level. A process and rota
for a select group of trained key
senior managers has been
established to manage
emergencies.

All Business Continuity plans are
up to date as of October 2023.
A sample was tested in Q3 with
the service heads.

Hybrid bitesize workshops are
starting again from April for:
Response, BC, Recovery, Rest
Centre ops.

Review of incidents for lessons
learnt.

The success of the election is dependent upon several factors all going well:

- The inclusion of The Arundel & South Downs constituency provides an increased reputational risk due to the time of getting ballot boxes returned from the Hampshire / Surrey border area as well as potential risk from reliance on cooperation from other District Councils in the constituency.
- The Returning Officer has no right of direction over other authorities so has to accept what services the other councils provide.

- Disenfranchisement of residents
- Legal challenge / Election petition – rerun elections (significant financial & resource implications)
- Results of election significantly delayed and reputational damage

Dominic Bradley

Jane Eaton



1. Weekly project team meetings with RO, including risk register consideration and update
2. Training for all polling station staff which will be supplemented by in-person briefing for Presiding Officers on the week of poll from the RO & Elections Manager
3. Training and development for core team from various providers. New guidance reviewed and considered at team meeting



New risk identified.

- Changes to the Elections Act for overseas voters could place a burden on the elections team especially if there is a rush of applications closer to polling day.
- This is the first general election under voter ID, which could cause issues if the public are not fully aware of this.
- Central Government are communicating risks associated with a Cyber-attack.

Title: Climate change

Risk: Climate change is leading to increasing annual rainfall, but in more intense rain events Warmer annual average temperatures including peaks of excessive heat in the summer. This is beginning to have impacts on HDC service provision and residents.

Human driven emissions of carbon dioxide, and other greenhouse gases through the burning of fossil fuels, as well as intensive agriculture and habitat destruction have altered the global atmosphere

Flooding. - There is an increase in water logging and surface water flooding of our parks and open spaces that is having an impact on people's ability to use those facilities. There is increased risk of both river flooding and surface water flooding on agricultural land. Heat - Extreme heat in the summer provides a risk to health, especially on those who are already unwell or vulnerable. It has a negative impact on HDC staff and contractors who are required to work outside or in buildings with poor ventilation systems. There is an increased risk

Dominic Bradley

Helen Peacock



1. Evaluate feasibility of climate adaptation through on-site site design and infrastructure changes and discuss with Members
2. Review Emergency planning approach to extreme weather events
3. Officer training to keep abreast of evolving climate adaptation approaches



New risk identified.

of wildfires or
arson causing
damage to
habitats or parks
facilities. There
are also welfare
considerations
for our livestock

Report to Audit Committee

27 March 2024

By the Director of Resources

INFORMATION REPORT



Not Exempt

2022-23 Housing Benefit audit

Executive Summary

Local Authorities normally receive subsidy from central government for correctly paid housing benefit. Thresholds are set to identify errors and if these margins are exceeded, Local Authorities stand to lose subsidy depending on the value of the error. Any clawback is determined by the Department of Work and Pensions (DWP).

Following the audit of the 2021/22 Housing Benefit claim, the Council incurred a loss of subsidy of £65,416 after breaching the lower threshold.

The pre-audit position in 2022/23 was a 0.58% Local Authority error rate breaching the upper threshold of 0.54%, with an expected lost subsidy cost of £122,925.

The audit of the 2022-23 Housing Benefit subsidy claim was completed in March 2024. This identified the likely loss of £191,235 in Housing Benefit subsidy to the Council after taking into consideration the value of the extrapolations and errors in the qualification letter.

The DWP determines the amount of subsidy to which the Council is entitled. Therefore, we cannot predict precisely the amount of clawback to be requested by the DWP. However, it is likely to request that the total amount of the loss be repaid in full.

Management has continued to apply robust measures to improve quality assurance in light of the adverse conditions the service has operated under in the last four years arising from Covid-19 and compounded by the cost of living crisis.

Recommendations

That the Committee is recommended to:

- i) Note (a) the expected loss of subsidy that has been identified in the audit of the 2022-23 Housing Benefit claim, and, (b) the measures being taken to improve the process and reduce errors in the future.

Reasons for Recommendations

- i) To make the Audit Committee aware of the subsidy loss and the measures taken to reduce the risk of future subsidy loss.

Background Papers

2021/22 Housing benefit audit report to Audit Committee on 29 March 2023

https://horsham.moderngov.co.uk/documents/s23678/2021_22%20Housing%20Benefit%20audit%20report.pdf

Wards affected: n/a

Contact: Dominic Bradley, Director of Resources, dominic.bradley@horsham.gov.uk

Background Information

1 Introduction and background

- 1.1 Covid-19 and, more recently, the cost of living crisis, has disproportionately increased the workload of Revenues and Benefits teams. The effects are still being felt. Increased use of temporary staff required to meet demand is likely to have had an adverse impact on quality.
- 1.2 The Revenues and Benefits team recognised the risk of increased error following the first loss of subsidy in 2021/22, and recruited accordingly, forming a Subsidy and Assurance team in August 2021. This team continues to identify a high percentage of past errors from the pre-April 2018 CenSus era and existing quality issues both of which have negatively impacted the recovery of subsidy. In effect, this means less headroom in the allowable threshold of Local Authority error, should cases be identified and extrapolated during the Housing Benefit subsidy audit.
- 1.3 The 2022-23 pre-audit position had in fact breached the upper threshold with a self-identified error rate of 0.58% compared to the 0.54% upper threshold limit. The 2022-23 Housing Benefit audit was undertaken by KPMG and finalised in March 2024. Extrapolations from the errors identified in the testing stage indicated that the Council would lose £191,235 in subsidy in total.

2 Relevant Council policy

- 2.1 The 2023-27 Council Plan - listening, learning and improving the support to residents and businesses.

3 Details

- 3.1 The parameters for loss of subsidy under Local Authority Error regime are based on set percentages of the total subsidy awarded. No subsidy is lost for errors below the lower threshold. The whole amount of the subsidy is repaid to the Department for Work and Pensions (DWP) for errors above the upper threshold. Between the upper and lower thresholds, a percentage is retained by the Council and a percentage is repaid to the DWP.
- 3.2 Table 1 below sets out the subsidy levels for 2022/23 and the prescribed percentage thresholds based on our Housing Benefit payment levels.

Table 1

Full Subsidy in 2022/23	£21,336,044
0.48% Threshold (lower)	£102,557
0.54% Threshold (upper)	£115,377

- 3.3 Table 2 below summarises the errors that occurred during 2022/23 which were identified during the Council's internal quality assurance checking process and the formal audit.

Table 2

Area of Error	Total Error Found	Extrapolated Amount
LA Error pre-audit	£122,926	
Post Audit Breakdown		
Earned income	£882	£7,876
Rent	£653	£35,007
Start dates	£254	£1,205
Private pensions	£462	£5,565
Overpayment adjustment	£586	£7,569
Tariff income	£105	£693
Self-employed income	£118	£392
100% workbooks	£10,001	£10,001
		£68,308
Final Error position (initial error + extrapolated amount) = £191,235		

- 3.4 The value of the extrapolations and errors (contained in the qualification letter) increased the current year Local Authority (LA) error and administrative delay figure (contained in the claim form) which had already breached the LA error and administrative delay upper threshold. Therefore, an element of the subsidy will need to be repaid. The DWP determines the amount of subsidy to which the Council is entitled.
- 3.5 At the end of the 2022/23 financial year, the final claim was submitted based on known costs which included the pre-audit £122,925 position. The 2022/23 financial year then closed which included the pre-audit figure. Now the final claim has been audited, the Council will be notified by the DWP on the final adjusted figure of Subsidy paid out, and actual subsidy due in relation to 2022/23. The council maintains a reserve to support the variances across the claims and to support the pressures within the budget (those that do not attract full subsidy). The council is still waiting the final confirmation from the DWP, but estimate the final cost in 2023/24 relating to the 2022/23 claim will be approximately £65,000, which includes some underlying benefit entitlement. We cannot predict the value of the subsidy repayment to be requested by the DWP, but it is likely to request that the total amount to be repaid in full.
- 3.6 Analysis of the causes in 2022/23:
- The pre audit position of £122,926 included 22 large overpayments totalling £91,526. Around 45% of this cost was attributed to historic error remaining within the system.
 - Table 2 demonstrates the pressure extrapolation places on final figures against the subsidy incentive. £3,060 of found error becomes £58,307 of extrapolated error. Extrapolation occurs when the size of the subsidy cell is too large to carry out a 100% check.

- 11% (£14,702) of the total overpayment was a result of Admin Delay (length of time to process a change after notification). This counts as LA error and was exacerbated by the capacity issue and demand coming into the service.
- 18% of the LA Error created is a result of using temporary members of staff. Although temporary members of staff are an essential support to resourcing high demand, they can present a risk in quality due to reduced investment of professional development due to short contract led employment.
- Removing the financial impact of the pressures listed above the service would have finished at 0.28% which would be well below the lower threshold.
- Further training and development has commenced for our retained staff on the key areas of risk: Self Employed Income, Rent Calculations, Self Employed and Earned income. This training will be refreshed each year.

Context since 2020

3.7 The key issues facing the service since 2020 are summarised below, each of which has an effect, but especially cumulatively:

- Impact of Covid-19: Government imposed significant reactionary changes to business rates. £57m distributed across twenty separate grants schemes, often without clear guidance and in short timeframes.
- Service had to write several local discretionary schemes, verify and check applications
- Service quality suffered as a result of staff having to learn new ways of working whilst dealing with increasing caseloads.
- Cost of living crisis has elongated the fatigue felt by officers in this service.
- Introduction of Government support schemes has diverted resource away from the day job:
 - £150 energy rebate scheme via Council Tax list
 - Energy Bills support schemes
 - Processing Council Tax Reduction Scheme support payments for those of working age.
- Service now dealing with a rising number of unreasonable complaints from an increasingly and ever demanding public which prove time consuming to conclude effectively.
- Removal of Northamptonshire County Council from the LGSS partnership in 2022 further disrupted the service, creating uncertainty as officers were put at risk of redundancy, adding further pressure.
- Service improvements by moving, for example, Capita (the housing benefit system) into the cloud, which has longer term benefits, but a short-term disruption impact.
- Sector issues with recruiting and retaining good quality Revenues and Benefits Officers.
- Increasing casework complexity and the fact that staff in this service are not highly remunerated.
- Increased workloads supported with additional use of temporary resource to improve capacity and resource mix often has a correlation with reduced levels of service quality.
- Increase in the complexity of cases, a more transient workforce developing due the rise of zero hours contracts, a more complicated tax credit system and

the growing complexity of Housing Benefit rules, regulations and requirements.

Management Actions

- 3.8 The service recognised the risk of increased error and accordingly recruited an expanded Subsidy and Assurance team in August 2021. The team implemented the following measures to try to minimise the risk of error:
- (i) detailed technical quality assessment checks are undertaken,
 - (ii) regular and detailed technical training is provided to staff,
 - (iii) increased cross-site working is encouraged,
 - (iv) sharing areas of expertise is a prerequisite, and,
 - (v) the re-defining and focusing of the QA / training programme against known subsidy risk areas. These are self-employed income, rent calculations, and earned income.
- 3.9 Naturally, however, these improvements have led to the team identifying a high percentage of past errors and existing quality issues which impact the recovery of subsidy.
- 3.10 The Service targeted the recruitment of specialists with Capita housing benefit system knowledge and the number of temporary staff has reduced. The service has deliberately over-recruited at times, which is reflected in the costs of the service to mitigate against having to use temporary staff when someone leaves. This is in the context that recruitment and retention is difficult generally in the revenues and benefits sector at the moment.
- 3.11 We fed back to Government to request that they do not burden us with the implementation of further Government schemes that require the Revenues and Benefits service, so that it can recuperate and catch up on all core functions. As this is more of a national matter than a local one, it is something we may not be able to influence. The Revenues and Benefits service had to administer the Energy Bills Support Scheme during 2023/24.
- 3.12 The Director of Resources holds regular performance meetings with the Assistant Director for Revenues and Benefits across Milton Keynes Council and Horsham District Council, two Revenues and Benefits Service Delivery Managers and the Operations Manager (Horsham Revenues & Benefits). This involves the review and analysis of the monthly subsidy positions for in month LA error reporting as the year progresses, as well all performance indicators and issues.
- 3.13 The service has engaged with the DWP's Partner Delivery Team to carry out a health check on processes and procedures to support identification of improvements to the customer journey, removing opportunity for error and to increase efficiency in service delivery.

The Future

- 3.14 The current projection for 2023/24 looks brighter than the projection for 2022/23 this time last year. The final numbers are projections based on Month 11, and the audit will not commence until towards the end of the 2024 calendar year.

Full Subsidy (projected)	£22,170,544
0.48% Threshold (lower)	£106,418
0.54% Threshold (upper)	£119,720
Forecast value of error through QA	£58,322
Headroom to lower threshold	£48,096

3.15 Subject to negotiating the final month without significant issues, we are anticipating some headroom below the lower threshold for errors identified through the audit, although it still remains tight, partly as a result of continued high levels of quality assurance checking, and also because the threshold amounts will reduce, as customers move to Universal Credit.

3.16 As is the situation every year, it only takes one error in a larger sized case going back a couple of years to cause an extrapolation of sufficient size to go over the thresholds.

Conclusions

3.17 There has been a weakening of performance across the whole sector and the Council is not an outlier. Management has focused on getting through the current situation and dealing with the issues and improving and resolving the issues.

3.18 The risk remains that once errors are identified, it is difficult to get out of the cycle of loss of subsidy. The measures to improve training and technical knowledge take time to feed through the process. Finding more errors results in more testing. However, the positive signs are in the reduction in seven additional 40+ workbooks for next year.

4 Next steps

4.1 The Director of Resources will regularly update the Audit Committee on progress of the actions being taken in the Revenues and Benefits service to mitigate further error and the 2023-24 Housing Benefit audit, which is not due to commence until the end of the 2024 calendar year.

5 Outcome of consultations

5.1 The Monitoring Officer and the Head of Finance and Performance were consulted to ensure legal and financial probity.

6 Other courses of action considered but rejected

6.1 Additional testing of all cases within the affected cells was considered but would be extremely resource intensive and require further audit testing. This option was rejected on the grounds that it could cost more than the lost subsidy.

7 Resource consequences

- 7.1 A £65,000 additional loss of subsidy will hit the 2023/24 financial year. However, anticipating the likelihood of subsidy at some point in the future, the Council has an earmarked Housing Benefit loss reserve which at 31 March 2023 contained £0.9m for such events. Therefore, the additional cost in 2023/24 will be absorbed by this earmarked reserve and not worsen the outturn for 2023/24. The earmarked reserve will continue to mitigate any subsidy loss that might occur in the future.
- 7.2 The audit fee for the work on 2022/23 is calculated at £69,725. This compares to £58,900 in 2021/22. The fee for the 2023/24 should in theory be lower if there are fewer additional workbooks next year.

Fee	£	Explanation
Base Fee	£12,800	
Additional workbooks	£55,200	23 workbooks (40+)
Complexity / failure	£1,725	3 days for time spent on high fail rates and complex cases (cell 094 earnings and cell 094 self-employed income)
Total fee	£69,725	

8 Legal considerations and implications

- 8.1 There are no legal implications from the report.

9 Risk assessment

- 9.1 The risk of losing further levels of subsidy in future years remains high. This is partly the result of higher levels of internal quality assurance checking identifying our own errors and partly enhanced audit checks in the areas identified this year may uncover a similar number of errors next year. These, when extrapolated are more likely to take us over the thresholds which have reduced in value.
- 9.2 The risk is compounded by the residual pool more likely to contain errors as new customers move to Universal Credit, the effect of which has reduced the gross subsidy awarded, and therefore, by calculation, the value of the lower and upper thresholds. Often the situation gets worse, before it gets better.

10 Procurement implications

- 10.1 There are no procurement implications.

11. Equalities and Human Rights implications / Public Sector Equality Duty

- 11.1 There are no implications on equalities and human rights, or public sector equality duty.

12 Environmental implications

- 12.1 There are no environmental implications.

13 Other considerations

- 13.1 There are no GDPR or Data Protection or crime and disorder implications.

Report to Audit Committee

Sent to Members 31 January 2024

By the Director of Resources

INFORMATION REPORT

Not exempt



**Horsham
District
Council**

Treasury Management and Prudential Indicators Quarter 3 report 2023/24

Executive Summary

This report covers treasury activity and prudential indicators for the first three quarters of 2023/24. The corresponding report for the first half year ending 30 September 2023 was reported at Audit Committee on 6 December 2023. During the period the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 31 December 2023, the Council had no external debt and its investments totalled £88m (£97m at 31 December 2022). During the first three quarters of 2023/24, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £2.71m was earned on investments at an average return of 4.6% (2.6% full year 2022/23).

Treasury investment income for the full year is forecast to be £1.5m above the budget as interest rates are significantly higher than those in the budget. Commercial property income is forecast at slightly below budget for the year.

Recommendations

The Committee is recommended to note the position in the third quarter

Background Papers

- "Capital Strategy 2023/24 incorporating Investment and Treasury Management Strategy" – Audit Committee 7 December 2022
- "Budget 2023/24 and Medium-Term Financial Strategy" – Cabinet 26 January 2023

Consultation: Arlingclose Limited. Council's Treasury management advisors

Wards affected: All

Contact: Julian Olszowka, Group Accountant, Technical 01403 215310

Background Information

1 Introduction

The purpose of this report

- 1.1 This report covers treasury management activity and prudential indicators for the three quarters of 2023/24. It meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

Background

- 1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to show that capital spending is prudent, affordable and sustainable and that treasury practices adequately manage risk. The Council approved the original indicators for 2023/24 together with the Capital Strategy on 22 February 2023. The Capital Strategy including the Treasury Management Strategy 2023/24 had been recommended for approval by this Committee on 7 December 2022.
- 1.3 The economic background to treasury management remains challenging with weak UK growth, relatively high inflation, and interest rates having to respond. This feeds into an unhelpful uncertainty over the direction of the economy in the next year or so. Arlingclose Limited, the Council's treasury management advisors, have provided a commentary in Appendix A.

Local Context

- 1.4 At the end of 2022/23 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £32.7m. The Council had no borrowing and £75m of investments reflecting its use of internal resources rather than borrowing in order to reduce risk and keep interest costs low.
- 1.5 On 31 December 2023, the Council had no borrowing and investments of £88.0m. Capital spend in the three quarters was £11.7m against an annual budget of £17.2m. Projected full year spend was £14.8m. None of the spend was unfinanced meaning that the CFR would not be increased.
- 1.6 Interest rates remained at 5.25% in the third quarter. This was above the estimated rate underpinning the budget leading to significantly higher income. The trajectory of rates is now expected to be downwards but with inflation on one side and possible recession on the other the Bank of England has a difficult balance to maintain. The current projection from the Council's adviser is that rates have peaked and will fall gradually from the middle of this year.

2 Treasury management

Borrowing Activity

2.1 There was no borrowing in the period or envisaged in the rest of the year.

Investment Activity

2.2 The treasury management position at 31 December 2023 is shown below. This is the month end position, but the daily position can vary as a large portion of income comes in at the beginning of month to be distributed to precepting authorities a few days later.

	31.3.23 Balance £m	Movement £m	31.12.23 Balance £m	30.12.23 Rate %
Banks & building societies (unsecured)	0.8	-0.4	0.4	3.3%
Covered bonds (secured)	16.3	0.7	17.0	4.7%
Local authorities & govt entities	8.5	9.3	17.8	5.4%
Money Market Funds – call	7.5	3.3	10.8	5.3%
Money Market Funds – cash plus or short bonds	13.1	0.2	13.3	3.4%
Pooled Funds – Property	4.7	-0.1	4.6	4.5%
Pooled Funds – Multi-Asset	8.4	-0.1	8.3	4.9%
Pooled Funds – Equity	8.6	-0.1	8.5	3.9%
Pooled Funds – Bonds	5.3	0.0	5.3	4.4%
REIT	1.8	0.2	2.0	2.8%
Total Investments	75.0	13	88.0	4.6%

2.3 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.

2.4 Investment income on a cash basis in the period was £2.7m well above the budget of £1.6m. The average return was 4.6% well above the budgeted figure of 2.8% and cash balances averaged £80m compared with the budgeted £72m. Due to the prudent cash flow projections the Council usually has more cash than budgeted.

2.5 While pooled funds are a useful diversifier for the Council's investment, they can show a theoretical capital loss if the current value of the funds is below the purchase value. At the end of the period the capital loss was £0.2m. This has no effect on the revenue accounts of the Council now as it has a statutory override of the accounting rule that would make the Council recognise the capital loss in its revenue account but potentially will have an effect after 31 March 2025 as the Government has so far only announced the statutory override on the accounting rules would be extended until then.

2.6 The returns in the rest of the year are expected to continue to exceed the budget and the outturn position is expected to be £1.5m above budget.

- 2.7 Given the risk inherent in short-term unsecured bank investments, the Council has reduced its exposure to them except through well diversified money market funds or call accounts. Otherwise, the Council has used local authorities, central government, secured bonds alongside strategic pooled funds.

Compliance

- 2.8 The Director of Resources reports that all treasury management activities undertaken during the third quarter of 2023/24 complied with the CIPFA Code of Practice and the Treasury Management Strategy recommended by this Committee.
- 2.9 Security of capital has remained the Council's main investment objective. Key to this is the counterparty policy as set out in its treasury management strategy. Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Treasury Management Indicators

- 2.10 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 2.11 **Security benchmark** – The Council set a security benchmark rating of A, which is the average credit rating for the investment portfolio. The minimum average rating was AA- during the first three quarters of the year.
- 2.12 **Liquidity benchmark** – The Council sets a benchmark to maintain a minimum of liquidity. The benchmark set was that £3m is available within a rolling three-month period without additional borrowing. The Director of Resources can report that liquidity arrangements were well within benchmark during the year to date with overnight cash alone not falling below £5m.

Treasury Management Indicators

- 2.13 **Interest rate exposures** - This indicator is set to control the Council's exposure to interest rate risk. The exposures to variable rate interest rates is quantified by the one-year revenue impact of a 1% rise or fall in interest rates. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. This indicator is within the limit.

Interest rate risk indicator - Upper limit	Limit	Actual
One-year revenue impact of a 1% rise	-£0.3m	-£0.19m
One-year revenue impact of a 1% fall	£0.3m	£0.19m

- 2.14 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. The limits and actuals on the long-term principal sums invested to final maturities beyond the period ends are below and the actual values were within limits.

£m	2023/24	2024/25	2025/26	No date
Actual principal invested beyond year-end	£13.5m	£13.5m	£9.4m	£28.7m
Limit on principal invested beyond year-end	£16m	£14m	£12m	£35m

3 Prudential Indicators 2023/24

3.1 The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. To demonstrate that the Council meets these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

3.2 **The Council's Capital Expenditure and Financing 2023/24** - This is one of the required prudential indicators and shows total capital expenditure for the year and how this is financed. The estimated indicator is shown below. The forecast Capital spend includes £7.7m for the Local Authority Housing Fund which was added to the capital programme after the budget was set. This additional spend is projected to be financed from £3.4m of government grant with the balance being internal resources such as capital receipts or reserves and no unfinanced spend is currently projected.

2023/24	Original estimate £m	Current projection £m
Total capital expenditure	7.3	14.8
Resourced by:		
External Resources	2.0	4.9
Internal Resources	5.3	9.9
Debt	0.0	0.0
Total financing	7.3	14.8

3.3 **The Council's overall borrowing need** - The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.4 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2023/24 MRP Policy was approved on 22 February 2023 within the 2023/24 Budget report.

3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. The current projection is equal to the original estimate. No increase in long-term borrowing is projected in this financial year.

Capital Financing Requirement and External Debt Year end 2023/24	Original estimate £m	Current projection £m
CFR	31.8	31.8
External debt	0	0

3.6 External borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. No difficulties are envisaged for the current or future years in complying with this Prudential Indicator as no long-term borrowing is currently planned.

- 3.7 **Borrowing limits** - The Council approved these Prudential Indicators as part of the 2023/24 Budget report.
- 3.8 **Operational boundary for external debt:** The operational boundary is the Council's estimate of most likely, but not worst-case scenario for external debt.
- 3.9 **Authorised limit for external debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom above the operational boundary for unusual cash movements.

	Maximum Debt	Authorised limit	Operational boundary
Borrowing	£0m	£15m	£0m
Finance leases	£0m	£6m	£0m

- 3.10 **The ratio of financing costs to net revenue stream** - This indicator identifies the financing costs of capital (revenue provision and any debt interest) against the net revenue stream. The indicator for the year was 7%. Based on current estimates as neither figure has changed significantly the ratio is expected to be 7% for the year.

4 Non-Treasury Investments

- 4.1 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in DLUHC Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 4.2 The Council has a significant directly owned property portfolio valued at £58m at the end of 2022/23. The original investment strategy set £3.7m as the income net of direct costs figure from the property portfolio and the present forecast is that the actual position will be £0.2m below budget because of a rent reduction and a long term letting requiring more work than expected to progress to completion.
- 4.3 **Net income from commercial and service investments to net revenue stream:** This prudential indicator shows the proportion that commercial net income forms of the whole Council's net revenue stream. The current projection is 26% against an estimate of 28% reflecting the dip in net income from the property portfolio.
- 4.4 There are a number of other indicators that were set for the year that cannot be definitively calculated until the end of the year when the accounts are closed and all relevant income and expenditure is accrued and central expenses are apportioned across all the Council's services. Some indicators can be estimated as a snapshot from property records and the table below shows the original estimated indicators and the latest projections.

Indicator	Estimate	Latest
Average Vacancy levels	3%	3%
Tenant over 5% net income	5	4
Weighted Average Unexpired Lease Term	14yr	14yr
Bad debts written off	£200,000	£100,000

- 4.5 A number of indicators for the investment properties require the end of year value of properties. A valuation of all investment properties is carried out at year end as a part of the final accounts. Valuations had been affected by the higher interest rates available and weakness in the economy which may well affect the values at the year-end date.

5 Outcome of Consultations

- 5.1 Externally the Council's adviser Arlingclose was consulted. Internally the Head of Property and Facilities was consulted.

6 Other courses of action considered but rejected

- 6.1 This report is to be noted so no particular course of action is recommended.

7 Resource Consequences

- 7.1 For the first three quarters interest earned was £2.7m over the budget in the period of £1.6m. Interest earned in 2023/24 is projected to be £3.9m compared to budget of £2.4m. MRP is projected to be on budget of £0.92m.
- 7.2 There are no direct staff resourcing consequences.

8 Legal Considerations and Implications

- 8.1 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and guidance issued by the Department for Levelling Up, Housing and Communities Guidance.

9 Risk assessment

- 9.1 Risks such as security of funds, liquidity, and interest rate risk are considered in the report. The limits and indicators reported on in this report effectively set the Council's risk appetite. .

10 Procurement implications

- 10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

- 11.1 There are no direct equality or human rights implications arising from this report. However, it is recognised that the Council's investment choices may have an indirect effect on social issues. The investment management industry has begun to add social issues such as human rights and equality to its criteria for selecting investments and although this is at an early stage officers will work with its advisers as to how it can positively contribute in this area.

12 Environmental Implications

- 12.1 There are no direct environmental implications attributable to the recommended strategies. However, it is recognised that the Council's investment choices may have an indirect effect on the environment. Officers will work with its adviser as to how it can positively and constructively use its investments to reduce impact on the environment.

13 Other Considerations

- 13.1 There are no other considerations to take into account.

Appendix A

Economic background to Quarter 3 of 2023/24

Economic background: The UK inflation rate finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25 basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting.

The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

Financial markets:

Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

Credit review: Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody's to Baa1.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress, but no changes were made to recommended durations over the period.

Heightened 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 remain under constant review.