

Public Document Pack



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22 September 2021

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held in the Council Chamber at these Offices on Thursday 30 September 2021 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Jemma Duffield on (01304) 872305 or by e-mail at democraticservices@dover.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read "Nicky", written over a white background.

Chief Executive

Governance Committee Membership:

D Hannent (Chairman)
S S Chandler (Vice-Chairman)
S H Beer
D A Hawkes
S J Jones
P D Jull
P Walker

AGENDA

- 1 **APOLOGIES**
To receive any apologies for absence.
- 2 **APPOINTMENT OF SUBSTITUTE MEMBERS**
To note appointments of Substitute Members.
- 3 **DECLARATIONS OF INTEREST** (Page 3)

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

4 **MINUTES**

To confirm the Minutes of the meeting of the Committee held on 29 July 2021 (to follow).

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 4 - 15)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

6 **TREASURY MANAGEMENT YEAR END REPORT 2020/21** (Pages 16 - 32)

To consider the attached report of the Head of Finance and Investment.

7 **TREASURY MANAGEMENT REPORT QUARTER ONE 2021/22**

To consider the report of the Head of Finance and Investment (to follow).

8 **2020/21 ANNUAL GOVERNANCE ASSURANCE STATEMENT** (Pages 33 - 53)

To consider the attached report of the Head of Governance and HR.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes will be published on our website as soon as practicably possible after each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting.
- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact Jemma Duffield, Democratic Services Officer, telephone: (01304) 872305 or email: democraticservices@dover.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

Subject: QUARTERLY INTERNAL AUDIT UPDATE REPORT

Meeting and Date: Governance Committee – 30th September 2021

Report of: Christine Parker – Head of Audit Partnership

Decision Type: Non-key

Classification: Unrestricted

Purpose of the report: This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31st August 2021

Recommendation: That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. Introduction and Background

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.

2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

- 2.7 There has been one internal audit assignments completed during the period, which are summarised in the table in section 2 of the report.
- 2.8 For the five-month period to 31st August 2021, 165.26 chargeable days were delivered against the target of 290, which equates to 56.99% plan completion.

3 **Resource Implications**

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2020-21 revenue budgets.
- 3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2021-22 - Previously presented to and approved at the 11th March 2021 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31st May 2021.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	Tenant Health & Safety	Reasonable	C	1
			H	3
			M	2
			L	0

2.1 Tenant Health & Safety – Reasonable Assurance

2.1.1 Audit Scope

To provide assurance on the data integrity, procedures and controls established to ensure that all of the landlord mandatory and good practice health and safety compliance functions are operating as intended and that this is sufficient to meet the Housing Regulator's requirements placed upon the Council and there is a clear direction of travel to excellence.

2.1.2 Summary of Findings

The Council took back responsibility for the management of its housing stock and tenancies on 1st October. Since then, a large amount of work has been undertaken by officers to make improvements in the service to tenants and more importantly the safety of those tenants through improved levels of compliance. Significant improvements have already been made and continue to be made each month as evidenced through the monthly performance reporting process. The level of commitment by officers and management is clearly evident and can be seen in the ongoing improvements being made to the buildings which the Council is now directly responsible for.

Assurance levels for each area tested are as follows:

Area	Assurance
Data Management/Performance Reporting	Substantial
Policies	Substantial
Gas Safety	Substantial
Fire safety	Reasonable
Electrical Safety	Reasonable
Lifts	No assurance
Legionella	Substantial
Housekeeping	Reasonable
Overall	Reasonable

While no areas of significant concern were identified during the audit in most of the areas reviewed, several issues were identified involving lifts which affect the overall safety of tenants. Those issues have already been raised with the relevant officers, and works orders have already been raised with the lift maintenance contractor to ensure that outstanding defects on lifts are rectified as soon as possible. The audit has been given an overall assurance of Reasonable; which is a significant improvement on the position at the time of the self-referral to the Housing Regulator. Effective controls were found to be in place across other compliance workstreams such as:

- Suitably detailed policies are in place which have been approved by Cabinet.
- A large amount of work has been undertaken to ensure that performance data across work streams is being accurately reported.
- A suitably qualified contractor is in place for the management of gas appliances.
- All buildings with communal areas have a suitably detailed Fire Risk Assessment (FRA) in place.
- The amount of outstanding fire prevention work is decreasing month on month.
- All fire alarms are tested in accordance with the relevant standards on a quarterly basis.
- Emergency lighting is subject to both monthly and annual testing.
- Lifts are subject to 6 monthly independent examinations as required by LOLER regulations.
- Legionella Risk Assessments are in place for buildings where required and all tested were found to be in date.
- Legionella temperature testing is undertaken at the required intervals.
- The amount of outstanding Legionella prevention work is reducing month on month.
- Good arrangements are in place to liaise with the contractor responsible for the management of legionella, with the number of outstanding remedial works relating to Legionella being reduced each month.
- Sheltered schemes are subject to regular and suitably detailed inspections by the Independent Living Manager

1.3 A number of weaknesses were identified during the course of the audit such as:

- No checks are undertaken on the contractor responsible for weekly testing of fire alarms.
- Building zone plans are not sufficiently detailed in most buildings and are therefore considered of only limited use in the event of an emergency.

- Weaknesses were identified around the supervision of the lift maintenance contractor.
- While block inspections are completed on general needs blocks and contractors being notified of issued requiring their attention, limited or no checks are being undertaken to ensure that contractors have subsequently rectified the issues.

Incomplete or inaccurate data received from East Kent Housing has meant that performance data has at times been only partially accurate. Those inaccuracies have been identified by the large amount of work undertaken by officers to review all compliance certificates and documentation. That process of reviewing data and certificates means that officers are now in a position of being confident on the accuracy of the performance data being reported. Testing has been able to confirm that the performance data is now being accurately reported across all compliance workstreams.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 There are no follow-ups to report this quarter.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings Climate Change, Officer Code of Conduct, Licensing, CSO Compliance, and Playgrounds.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2021-22 Audit plan was agreed by Members at the meeting of this Committee on 11th March 2021.

5.2 The Head of the Audit Partnership meets on a quarterly basis with the Strategic Director (Corporate Resources) - Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high-profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Annex 3.

6.0 FRAUD AND CORRUPTION:

6.1 Apart from some working in respect of grant frauds, there have been no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the five-month period to 31st August 2021, 165.26 chargeable days were delivered against the target of 290, which equates to 56.99% plan completion.

- 7.2 The financial performance of the EKAP is currently on target at the present time.
- 7.3 Thee EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Annex 4.

Attachments

- Annex 1 Summary of High priority recommendations outstanding after follow-up.
Annex 2 Summary of services with Limited / No Assurances yet to be followed up.
Annex 3 Progress to 31st August against the agreed 2021/22 Audit Plan.
Annex 4 Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>None to report this quarter</i>		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
EKHR – Benefits-in-kind	October 2020	Reasonable/Limited	WIP
EKHR – Disclosure & Barring Service Checks	November 2020	Limited	WIP

PROGRESS AGAINST THE AGREED 2021-22 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-08-2021	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	10	10	4.04	Work-in-Progress
Creditors & CIS	10	10	0.18	Quarter 3
External Funding Protocol	10	10	0.18	Quarter 3
Main Accounting System	10	10	0.18	Quarter 3
Budgetary Control	10	10	0.18	Quarter 3
HOUSING SYSTEMS:				
Repairs & Maintenance	15	15	0	Quarter 4
Tenant H&S	10	10	0	Quarter 4
Rechargeable Works	10	10	0	Quarter 2
Tenancy & Estate Mgmt.	10	10	1.12	Work-in-progress
GOVERNANCE RELATED:				
Cloud Computing/Digital	10	10	1	Brief issued
Officers' Code of Conduct	10	10	10.5	Finalised – Reasonable
Project Management	10	0	0	Postponed to accommodate unplanned work
Corporate Advice/CMT	2	2	.84	Work-in-Progress throughout 2021-22
s.151 Meetings and Support	9	9	7.48	Work-in-Progress throughout 2021-22
Governance Committee Meetings and Reports	12	12	6.40	Work-in-Progress throughout 2021-22
2022-23 Audit Plan Preparation and Meetings	9	9	0.86	Quarter 4
POST IMPLEMENTATION REVIEWS:				
Ottaway House	10	10	10.63	Finalised – N/A
Main Accounting System (Tech 1)	5	5	0	Quarter 3
CONTRACT AUDITS:				
CSO Compliance	13	13	9.88	Work-in-Progress
Service Contract Mgmt.	10	0	0	Postponed to accommodate unplanned work

Review	Original Planned Days	Revised Planned Days	Actual days to 31-08-2021	Status and Assurance Level
SERVICE LEVEL:				
Climate Change	10	10	2.43	Work-in-Progress
CCTV	10	10	10.61	Finalised - Reasonable
Contaminated Land, Air & Water Quality	10	10	2.58	Brief issued – Quarter 4
Grounds Maintenance	12	12	0.32	Brief issued
Licensing	12	12	13.24	Work-in-progress
Phones, Mobiles & Utilities	10	0	0.37	Postponed to accommodate unplanned work
Garden Waste & Recycling Income	10	10	0.18	Quarter 3
OTHER				
Liaison with External Auditors	1	1	0	Work-in-Progress throughout 2021-22
Follow-up Work	15	15	5.31	Work-in-Progress throughout 2021-22
FINALISATION OF 2020-21- AUDITS				
Environmental Health Protection Requests	5	5	1.39	Finalised - Substantial
Treasury Management			0.38	Finalised - Substantial
Land Charges			10.68	Finalised - Reasonable
Playgrounds			11.70	Draft Report
Tenant Health & Safety			20.26	Finalised - Reasonable
Planning Enforcement			10.11	Finalised - Reasonable
Responsive Work:				
HRA Properties Data Match	0	3	2.69	Finalised
Staff Enquiry	0	10	10.35	Finalised
Tech One Assistance	0	2	1.69	Finalised
Lessons Learned Review	0	5	5.02	Finalised
Exit Interview	0	2	1.18	Finalised
Homes England 21-22	0	8	1.33	Finalised
TOTAL	290	290	165.26	56.99% as at 31st August 2021

EKS, EKHR & CIVICA:

Review	Original Planned Days	Revised Planned Days	Actual days to 31st August 2021	Status and Assurance Level
EKS Reviews;				
Housing Benefits - Payments	15	15	0.61	Quarter 2
Housing Benefit Testing	15	15	0.14	Work in progress throughout 21-22
Council Tax	15	15	0	Quarter 4
Customer Services/Gateway	15	15	0	Quarter 3
KPIs	5	5	0.24	Quarter 2
ICT - Change Controls	15	15	0.14	Quarter 3
ICT – Procurement & Disposal	15	15		Quarter 4
EKHR Reviews;				
Payroll	15	15	16.42	Quarter 2
Employee Allowances & Expenses	15	15	0	Quarter 3
Leavers & Recruitment	15	15	0.2	Quarter 3
Other;				
Corporate/Committee	5	5	4.03	Work in progress throughout 21-22
Follow up	5	5	0	Work in progress throughout 21-22
Finalisation of 2020/21 Audits:				
Days underdelivered in 2020/21				
Restart Grants			6.05	Finalised
ICT – Disaster Recovery			0.35	Finalised
Housing Benefits – Quarterly Testing 20-21	10	10	5.45	Finalised
ICT – Software Licensing			9.63	Finalised
Housing Benefits – RBV Framework			0.95	Finalised
Total	160	160	44.19	27.62% as at 31st August 2021

(Note - From 1st September EKHR will be taken back in house by the three partner councils and the EKS plan will reduce by 32 days)

Definition of Audit Assurance Statements & Recommendation Priorities

Cipfa Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation’s ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

Subject:	TREASURY MANAGEMENT YEAR END REPORT 2020/21
Meeting and Date:	Governance Committee – 30 September 2021
Report of:	Helen Lamb – Head of Finance and Housing
Portfolio Holder:	Councillor Christopher Vinson – Portfolio Holder for Finance and Governance
Decision Type:	Non-Key Decision
Classification:	Unrestricted

Purpose of the report:	To provide details of the Council's treasury management for the year ended 31 March 2021.
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Recommendation:	That the report is received.
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1. Summary

- 1.1 The Council's investment return for the period to 31st March was 2.61% (annualised), which outperformed the benchmark¹ by 2.58%. The total interest and dividends income received for the year £1,165k as of 31st March, which is £135k less than the original budget estimate of £1,750k. The long-term investments have been generating a reasonable income return considering the impact of the global pandemic.
2. The Council remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period.

3. Introduction and Background

- 3.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.
- 3.2 Council adopted the 2020/21 Treasury Management Strategy (TMS) on 26th February 2020 as part of the 2020/21 Budget and Medium-Term Financial Plan.
- 3.3 To comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.
- 3.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.07 at the end of the quarter.

4. Economic Background

- 4.1 The report attached (Appendix 1) contains information up to the end of March 2021; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

“Main points since March:

- I. The medium term global economic recovery has continued with the reopening of economies and most look set to grow at a decent pace. Recovery in world demand has been more highly concentrated in goods than in services. The UK has continued to benefit from its initial rapid vaccine rollout, which appears to have weakened the link between infections and hospitalisations.*
- II. The re opening the UK economy will result in improved GDP in Q2 and Q3 although the pingdemic in June and July will have restrained activity a little and exacerbated labour shortages. The more upbeat assessment is that GDP will return to its pre Covid peak by the end of calendar 2021 but will be predicated on the extent and speed with which households and businesses normalise their spending and activity during the remainder of the year.*
- III. Inflation rose to 2.5% in June. Alongside the increase in commodity and energy prices, supply and transportation bottlenecks and the boost in prices from the lifting of restrictions, the MPC has acknowledged the potential of CPI rising to around 4 in Q 4 2021. However, the transitory factors affecting inflation including the low base effect of 2020 are expected to unwind over time expectations for medium term inflation are not elevated.*
- IV. There is uncertainty over the size and pace of change in the labour market as companies to adjust their staffing levels and new hires to post Covid demand and working arrangements. The number of furloughed jobs has declined and the scheme ends in September.*
- V. Government bond yields declined after rising earlier in the year as the prospect of imminent higher policy rates receded- the Delta variant increased concerns that the pandemic will dampen confidence and weigh on growth for longer than previously expected. Some upward pressure on gilt yields could remain in the short term due to the variability of data.*
- VI. Policymakers have begun signalling their intention of higher policy rates, albeit, not just yet. At its August meeting, the MPC indicated that some modest tightening of monetary policy over the 3 year forecast period was likely to be necessary to mitigate inflation risks.*
- VII. Arlingclose expects Bank Rate to remain at the current 0.10% level. We believe the risk of movement in the immediate term remains low, although the risks over the MPC's 3 year horizon have increased and are leaning to the upside.*
- VIII. Gilt yields have fallen recently, but volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes.*
- IX. Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.*

- X. *Downside risks remain the risk of further virus mutations including the Delta variant could destabilise the recovery. Downside risks also arise from potential future vaccine shortages as the demand for vaccines increases.*

5. Annual Investment Strategy

- 5.1 The investment portfolio, as at the end of March 2021, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £56.9m, increasing to £58.7m at the end of August. The increase reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.
- 5.2 As at 31st March 2021, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were lower than anticipated (£6.9m at 31 March 2021).
- 5.3 Cashflow funds have since increased (to £8.7m at 31 August 2021) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

6. New Borrowing

- 6.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of March 2021, the Council had £16 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

7. Debt Rescheduling

- 7.1 At this time, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

8. Compliance with Treasury and Prudential Limits

- 8.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

9. Appendices

Appendix 1 – Arlingclose Treasury Management Report for year end 2020/21

Appendix 2 – Investment portfolio as at 31 March 2021

Appendix 3 – Borrowing portfolio as at 31 March 2021

Appendix 4 – Investment portfolio as at 31 August 2021

10. Background Papers

Medium Term Financial Plan 2019/20 – 2022/23

Contact Officer: Dani Loxton, extension 2285

Treasury Management Yearend Outturn Report 2020/21

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2020/21 was approved at a meeting on 26th February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26th February 2020.

External Context

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

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

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

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

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for

government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

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

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

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

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

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

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

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

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

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end

of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

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

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

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

Local Context

On 31st March 2020, the Authority had net borrowing of £51.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.20 Actual £000
General Fund CFR	62,506
HRA CFR	69,617
Total CFR	132,123
Less: Usable reserves	(71,292)
Less: Working capital	(8,897)
Net borrowing	51,934

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2021 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £000	Movement £000	31.3.21 Balance £000	31.3.21 Rate %
Long-term borrowing	75,632	(2,445)	73,187	
Short-term borrowing	31,367	(12,924)	18,443	
Total borrowing	106,999	(15,369)	91,631	3.46%
Long-term investments	45,476	4,073	49,549	
Short-term investments	4	0	4	
Cash and cash equivalents	9,585	(1,824)	7,761	
Total investments	55,065	2,249	57,314	2.87%
Net borrowing	51,934		34,317	

£18m of short-term borrowing was repaid in the year, £5m was borrowed to help with yearend cash flow requirements. £2.4m has been repaid for the HRA self-financing loan.

Long term investments have increased by £4m, this is due to the underlying unrealised capital losses for 19/20 being recouped as the situation with the pandemic has improved through 20/21. £1.8m reduction in cash and cash equivalents due to cash flow fluctuations.

Borrowing Update

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

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

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

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

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

County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.

If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

UK Infrastructure Bank: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

Borrowing strategy

At 31st March 2021 the Authority held £91.6m of loans, a decrease of £15.4m 31st March 2020, as part of its strategy for funding previous years’ capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £000	Net Movement £000	31.3.21 Balance £000
Public Works Loan Board	77,999	(2,368)	75,631
Local Authorities (Short-term)	29,000	(13,000)	16,000
Total borrowing	106,999	(15,368)	91,631

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

In keeping with these objectives, no new long-term borrowing was undertaken. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 3 above.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Treasury Investment Activity

On 1st April the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £27.6m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £72.4m and £53.5m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.20 Balance £000	Net Movement £000	31.3.21 Balance £000	31.3.21 Income Return %
Banks & building societies (unsecured)	5,055	2,705	7,760	0.10%
Money Market Funds	4,534	(4,529)	5	0.10%
Other Pooled Funds				
- <i>Short-dated bond funds</i>	7,861	171	8,032	
- <i>Strategic bond funds</i>	7,474	912	8,386	
- <i>Property funds</i>	5,625	(40)	5,585	
- <i>Multi asset income funds</i>	24,516	3,030	27,546	
Other Pooled Funds Sub-total	45,476	4,073	49,549	3.23%
Total investments	55,065	2,249	57,314	

Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £50m that is available for longer-term investment is held in pooled investment funds.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

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

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2020	4.88	A+	100%	1	2.75%
31.03.2021	5.33	A+	100%	1	3.01%
Similar LAs	4.63	A+	65%	40	1.38%
All LAs	4.63	A+	63%	14	0.90%

Externally Managed Pooled Funds: £50m of the Authority’s investments are invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 12.57%, comprising a 3.43% income return which is used to support services in year, and 9.14% of capital growth.

The Authority is invested in bond, multi-asset and property funds. During the initial phase of the pandemic in March 2020, the sharp falls corporate bond and equity markets had a negative impact on the value of the Council’s pooled fund holdings and was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12 month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority’s portfolio. The recovery in UK equities has lagged those of US and European markets.

Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities’ Property Fund and the Columbia Threadneedle Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days’ notice for redemptions. The capital value of the property fund(s) are shown in Table 4, above.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority’s medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Income from most of the Authority’s externally managed funds will also be lower than in 2019/20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Following the approval of the Property Investment Strategy in November 2016, work continues to identify and progress suitable investments to deliver economic regeneration and to generate additional income streams for the future. Additionally, the Property Investment team continues to work on a number of residential developments both utilising DDC owned properties and land, as well as with external developers.

The 2020/21 budget includes a forecast of total income (rent and service charges) of £1.94m. Costs including management costs, minimum revenue provision and long term borrowing of £1.30m are forecast resulting in retained income for the General Fund of £640k.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ under	Actual %	Benchmark %	Over/ under
Interest Received	1,615	1,750	(135)	2.61%	0.03%	2.58%
Interest Payable	2,658	2,658	0	3.46%	3.46%	0

Compliance

The Strategic Director of Corporate Resources reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	31.3.21 Actual	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied?
Borrowing	£91.6m	£333m	£338.5m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	31.3.21 Actual	2020/21 Limit	Complied?
Any single organisation, except the UK Government	<£1m	£8m per bank	✓
Any group of organisations under the same ownership	0	£16m per group	✓
Negotiable instruments held in a broker's nominee account	0	£15m	✓
UK Government	0	Unlimited	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£50m	£10m per fund	✓
Money Market Funds	<£1m	£10m per fund	✓
Operational bank	£7m	£20m	✓

Treasury Management Indicators

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

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

	31.3.21 Actual	2020/21 Target	Complied?
Portfolio average credit rating	5.33	6	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.3.21 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£7m	£8m	✓

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

Interest rate risk indicator	31.3.21 Actual	2020/21 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	573	550	✓

Upper limit on one-year revenue impact of a 1% fall in interest rates	573	550	✓
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The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	18,443	25%	0%	✓
12 months and within 24 months	3,812	50%	0%	✓
24 months and within 5 years	8,188	50%	0%	✓
5 years and within 10 years	16,493	100%	0%	✓
10 years and above	44,695	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Other

CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

Proposed changes to the Treasury Management Code include requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

In-house as at 31/03/21**APPENDIX 2**

Organisation	Issue Date	Book cost	Market yield %	Government Sovereign Debt rating	Options available
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In-house investments - Long Term

CCLA Property investment Fund	30/06/17	3,000,000	4.06%	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund	31/07/17	3,000,000	4.06%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	3.69%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.78%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.56%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.10%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.78%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	5.00%	UK - Gov 'AA'	5 Years +

50,000,000**50,000,000 Total Portfolio****Cashflow:****Rate****Call Accounts/MMF (as at 31/03/21)**

Global Treasury Fund (Goldman Sachs Money Market Fund)	4,106	0.01%
Standard Life Investments (Money Market Fund)	1,000	0.01%
Natwest SIBA	6,924,811	0.10%
Santander	503	0.05%
Bank of Scotland	5,023	0.10%
Barclays	374	0.00%

Total Cash flow 6,935,816**Total Portfolio at 56,935,816**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-20	Interest Rate %	Principal To Be Repaid 2020/21	Principal Balance 31-Mar-21	Interest Payable 2020/21	Lender	Type of loan
Long Term Borrowing											
Fixed	02/10/97	02/10/57	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/97	28/05/57	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/46	23/06/26	JUNE-DEC	131582	290	2.50	45	245	7	PWLB	Equal Instalment of Principal (EIP)
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	54	2.50	8	45	1	PWLB	Equal Instalment of Principal (EIP)
Fixed	16/11/01	30/09/26	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Fixed	26/03/12	26/03/42	SEPT-MAR	499853	73,997,937	3.18	2,367,345	71,630,591	2,334,462	PWLB	Annuity (HRA Financing)
					77,998,280		2,367,398	75,630,882	2,596,971		
Short Term Borrowing											
Fixed	05/01/21	06/04/21	On Maturity		0	0.05	6,000,000	0	748	Middlesbrough Council	Short term loan for Strategic cash flow purposes
Fixed	10/02/21	10/05/21	On Maturity		0	0.05	5,000,000	0	610	South Lakeland District Council	Short term loan for Strategic cash flow purposes
Fixed	22/03/21	22/04/21	On Maturity		0	0.06	5,000,000	0	255	Greater Manchester Combined	Short term loan for Strategic cash flow purposes
					0		16,000,000	0	1,612	<i>Sub-total</i>	
Fixed	01/05/12	01/11/27	MAY-NOV		60,966	0.00	8,710	52,257	0	Lawn Tennis Association	Interest free
					78,059,247		2,376,108	75,683,139	2,598,583		

In-house as at 31/08/21**APPENDIX 4**

Organisation	Issue Date	Book cost	Market yield	Government	Options available
<u>In-house investments - Long Term</u>					
CCLA Property investment Fund	30/06/17	3,000,000	4.06%	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund	31/07/17	3,000,000	4.06%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	3.69%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.78%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.56%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	3.69%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.10%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.78%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	5.00%	UK - Gov 'AA'	5 Years +
		<u>50,000,000</u>			
		<u>50,000,000</u>	Total Portfolio		

Cashflow:**Call Accounts/MMF (as at 31/08/21)****Rate**

Global Treasury Fund (Goldman Sachs Money Market Fund)	354,106	0.01%
Standard Life Investments (Money Market Fund)	2,000,000	0.01%
Natwest SIBA	6,333,992	0.10%
Santander	503	0.05%
Bank of Scotland (BOS)	5,023	0.10%
Barclays	0	0.00%
	374	
Total Cash flow	<u>8,693,998</u>	

Subject:	2020/21 ANNUAL GOVERNANCE ASSURANCE STATEMENT
Meeting and Date:	Cabinet – 6 September 2021 Governance Committee – 30 September 2021
Report of:	Louise May, Head of Governance
Portfolio Holder:	Councillor Chris Vinson, Portfolio Holder for Finance, Governance, Digital and Climate Change
Decision Type:	Non-Key
Classification:	Unrestricted

Purpose of the report:	To approve the Annual Governance Assurance Statement 2020/21
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Recommendation:	(1) Cabinet approve the Annual Governance Assurance Statement and request that the Leader and the Head of Paid Service sign this statement on behalf of the Council.
	(2) Governance Committee are asked to accept the Annual Governance Assurance Statement alongside the 2020/21 Statement of Accounts.

1. Summary

- 1.1 Annually, the Council is required to conduct a review of the effectiveness of our system of internal control and also report on the extent to which we comply with our own Local Code of Corporate Governance. This must be conducted in accordance with the Delivering Good Governance in Local Government Framework 2016 Edition and is reported as the Annual Governance Assurance Statement. Cabinet are asked to accept the Annual Governance Assurance Statement for 2020/21, as recommended by the Corporate Management Team and request that the Leader and the Head of Paid Service sign this statement on behalf of the Council.
- 1.2 The Governance Committee is asked to accept the Annual Governance Assurance Statement alongside the 2020/21 Accounts.
- 1.3 Usually, the statement of accounts are required to be approved 31 July each year. However, due to the Covid-19 pandemic, the Regulations have been amended and the statement of accounts is now required to be approved by 30 September 2021, hence the delay in presenting the AGAS this year.

2. Introduction and Background

- 2.1 The Accounts and Audit Regulations 2015, require that the Council conducts at least annually, a review of the effectiveness of its system of internal control and also report on the extent to which we comply with our own Local Code of Corporate Governance. The Council's Annual Governance Assurance Statement is prepared to meet these requirements and will be provided alongside the published Statement of Accounts in accordance with the Accounts and Audit Regulations 2015.

- 2.2 The statement is to be signed by the Leader of the Council and the Chief Executive, having paid due regard to any matters raised by the Head of Governance and the Monitoring Officer. In particular, they should have particular regard to the opinion of the Head of Governance and Monitoring Officer on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.
- 2.3 The Annual Governance Assurance Statement for 2020/21 is attached and has been agreed by the Corporate Management Team in August 2021. The statement has been prepared taking into account the following information:
- A detailed review of the Council's performance measured against the Core and Sub Principles as detailed in the Delivering Good Governance in Local Government Framework 2016 Edition.
 - The service review work performed by Internal Audit during the year.
 - Internal Audit's review of Corporate Governance arrangements.
 - Assurance Statements produced by individual Directors of Service.
 - The information gathered as a result of risk assessment and management.
 - The annual reports of the Scrutiny and Governance Committees.
- 2.4 The Action plan will be monitored during the year and progress reported to Governance Committee.

3. **Identification of Options**

- 3.1 Option 1: Agree the Annual Governance Assurance Statement including the key actions identified, for signature by the Leader and the Head of Paid Service and then for inclusion in the 2020/21 Accounts
- 3.2 Option 2: Do not agree the Annual Governance Assurance Statement and require further analysis and clarification.

4. **Evaluation of Options**

- 4.1 Option 1 is the preferred option, as in preparing the Annual Governance Assurance Statement this fully meets the requirements of the Accounts and Audit Regulations 2015. Delivering Good Governance in Local Government Framework (2016 Edition) states:

"The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016)".

5. **Resource Implications**

None.

6. **Corporate Implications**

- 6.1 Comment from the Section 151 Officer: Accountancy has been consulted and has no further comment. (JS)
- 6.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted during the preparation of this report and has no further comment to make.
- 6.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications, however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15/section/149>

7. **Appendices**

Appendix 1 – Annual Governance Assurance Statement

Appendix 2 – Action Plan – Backward Looking

Appendix 3 – Action Plan – Forward Looking

8. **Background Papers**

Accounts and Audit Regulations 2015

CIPFA Delivering Good Governance in Local Government Framework 2016 Edition

Contact Officer: Louise May, Head of Governance

Dover District Council

Annual Governance Assurance Statement

1 APRIL 2020 TO 31 MARCH 2021

1. WHAT WE ARE RESPONSIBLE FOR

We are responsible for ensuring that our business is conducted in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively. We have a duty under the Local Government Act 1999 to continually review and improve the way we work and at the same time have regard to a combination of economy, efficiency and effectiveness.

In order to meet our responsibility we have in place proper arrangements for overseeing what we do and this is called Governance. These arrangements make sure that we do the right things in the right way, that our services reach the right people and that we are open, honest and accountable in the way that we deliver those services. This all contributes to our sound system of governance

We have approved and adopted a Local Code of Corporate Governance and a copy of this is available on our website at <http://www.dover.gov.uk/Corporate-Information/CorporateGovernance.aspx>.

2. THE AIM OF THE GOVERNANCE FRAMEWORK

The Governance Framework details the systems, processes, culture and values that we are controlled by and which we are answerable to. It also shows what we get involved with and how we engage with the community. It also shows how we monitor what we are achieving so that we can deliver services that are appropriate and value for money.

The system of internal control is an important part of the framework and is designed to manage risk to a reasonable level. It cannot remove all risk of failure to achieve policies and aims and can only provide reasonable protection. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise anything that could prevent us from achieving our policies and aims
- Assess how likely it is that identified risks might happen and what the result would be if they did
- Manage those risks efficiently, effectively and economically

The Governance Framework describes what has been in place at Dover District Council for the year ended 31 March 2021 and up to the date of approval of the Council's accounts.

3. OUR GOVERNANCE FRAMEWORK

Our Governance Framework is underpinned by seven core principles and supported by our Corporate Plan as well as many systems, policies, procedures and operations, which together ensure that the intended outcomes for our community and stakeholders are defined and achieved. Good governance is dynamic, and Dover District Council is committed to improving governance on a continuing basis through a process of evaluation and review.

The key features are:

(a) **Our Core and Supporting Principles**

The seven core principles are taken from the International Framework: *Good Governance in the Public Sector* and help this Council demonstrate good governance. Each of these principles translates into a range of specific requirements and they are also reflected in this Corporate Governance Local Code:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

(b) **Our Corporate Plan**

This is our main strategic document providing a framework for the delivery of our services and providing context for all the other strategies and plans that we have. The Corporate Plan for 2020-2024 is published and is available on the Council's website. The Council approved a new Corporate Plan in February 2020 which continues with the overall direction of travel as the previous version.

The following strategic priorities have been identified in the 2020-2024 Corporate Plan:

- Regeneration - Tourism & Inward Investment
- Housing & Community
- Climate Change, Environment & Assets – a cleaner sustainable environment
- Working Smartly & Delivering Services

(c) **Business Plans**

The Business Plan is one of the central mechanisms for each Head of Service managing their own area of activity and therefore sits at the centre of the Corporate Governance process. The business plans support the aims of the Corporate Plan which include performance indicators that are used to measure our achievements.

(d) **Our Constitution**

Our Constitution details how we operate, how decisions are made and the procedures, which are to be followed. It also ensures that we work in an efficient and transparent way and that we are accountable to local people. The Monitoring Officer is responsible for keeping the Constitution under review.

(e) **The Executive**

The Executive are responsible for most decisions and is made up of the Leader and a Cabinet. Major decisions to be taken are published in advance in the Executive's Notice of Forthcoming Key Decisions, and will generally be discussed in a meeting open to the public. All decisions must be in line with our overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

(f) **Corporate Management Team**

The Corporate Management Team comprises the Chief Executive (and Head of Paid Service); Strategic Director (Corporate Resources) (and Section 151 Officer) and Strategic Director (Operations and Commercial).

Members of Corporate Management Team have a responsibility for the day to day running of each Directorate of the Council. They must regularly assess their Directorate's assurance arrangements and provide the Council with the opportunity to keep check on the adequacy of its overall arrangements.

(g) **Governance Committee**

The seven appointed members of the Council provide independent assurance of the adequacy of the risk management framework and the associated control environment together with independent review of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment. The Committee oversees the financial reporting process by considering the final Statement of Accounts. The Committee promotes high standards of conduct amongst the 32 members of Dover District Council and (up to) 317 members of Town and Parish Councils in the District. Complaints of service maladministration are investigated and reported to the Committee. Lessons learned from these complaints are reviewed and acted on.

The Chairman provides an Annual Report of the Governance Committee to the Annual Council Meeting

(h) **Overview and Scrutiny**

In July 2019, and as a result of the reduction in elected members, the Council voted to reduce to one overview and scrutiny committee who support and monitor the work of the Executive. A "call-in" procedure or addition to the work programme allows scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The Monitoring Officer provides an Annual Report of the Scrutiny Committees to the Annual Council Meeting.

(i) **Monitoring Officer**

The Monitoring Officer is charged by law with the responsibility for identifying and reporting on any acts or omissions of the Council which he considers to be contrary to law. He is also responsible for considering allegations of Members breaches of the

codes of conduct. In January 2021, the Council agreed that this role could be undertaken on a part time basis with effect from 1 April 2021. The Deputy Monitoring Officer continues to work full time.

(j) **Our Solicitor**

The Solicitor to the Council provides his opinion on our compliance with our legal obligations. As from 1 January 2019 the same officer fulfils the role of Monitoring officer and Solicitor to the Council.

(k) **Data Protection Officer**

We have appointed a Data Protection Officer in accordance with Article 37 of the General Data Protection Regulation 2016. We support the Data Protection Officer by providing resources to undertake tasks and access to personal data and process and operations and to maintain expert knowledge. The Data Protection Officer his duties in an independent manner and we may not give the Data Protection Officer instruction on exercising his role. The Data Protection Officer is currently the Solicitor to the Council.

(l) **Financial procedures and Contract Standing Orders**

We have to ensure that we act in accordance with the law as well as various other regulations. We have developed policies and procedures for our officers to ensure that, as far as are possible, they understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution.

(m) **Financial Management**

Our financial management arrangements conform with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. In addition to the Financial and Contractual procedure rules contained within the constitution, in order to maintain its financial management the Council operates budgetary control procedures which are used in conjunction with a Medium Term Financial Plan (MTFP).

Responsibility for ensuring that an effective system of internal financial control is maintained rests with the Section 151 Officer. The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected quickly.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes may be the responsibility of other managers.

In particular, the process includes:

- The setting of annual budgets;
- Producing the Medium Term Financial Plan
- Monitoring of actual income and expenditure against the annual budget;
- A mid-year review of the annual budget;

- Setting of financial and performance targets, including the use of the prudential code and associated indicators;
- Quarterly reporting of the Council's financial position to Members;
- Clearly defined capital expenditure guidelines;
- Treasury Management Strategy
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.
- A continuous and effective internal audit.

Through our budget monitoring processes we are able to ensure that financial resources are being used to their best advantage, this includes quarterly management reporting to the Corporate Management Team and Members.

Financial planning is underpinned by business planning. Increased expenditure in any service area has to be justified to the Corporate Management Team, and where necessary approved by the Executive. Corporate Management Team is tasked with prioritising resources to ensure that the objectives within Corporate Plan are supported by the individual business plans, and that improvements are in line with corporate objectives.

(n) **Policies**

Corporate policies on a range of topics such as Equality, Information Governance and Data Protection are all subject to internal review. We keep all staff aware of changes in policy, or documentation through internal communications. The corporate training needs are identified each year and appropriate training for all or key members of staff is provided.

(o) **Risk**

The risk management strategy, which forms part of the Corporate Governance Local Code, shows the role both Members and Officers have in the identification and minimisation of risk. Risks are recorded in a Corporate Risk Register and are then subject to regular review.

(p) **Service Assurance**

A Service Assurance Statement is produced annually by all Directors of this Council and of Shared Services detailing their assessment of their services. They are required to give assurance that risks have been identified, that sound business arrangements operate in their service areas, and that the service is subject to monitoring and review in order to assess performance.

(q) **Performance Management Framework**

Progress towards the achievement of our objectives is monitored through our Performance Management Framework. A quarterly Performance Report is produced and reviewed by Corporate Management Team, by Cabinet and by the Overview & Scrutiny Committee.

(r) **Internal Audit**

The East Kent Audit Partnership Internal Audit Team reports to the Strategic Director (Corporate Resources). They operate under a Charter, which defines their relationship with our officers, and the Governance Committee. Their main

responsibility is to provide assurance and advice on our internal control systems to the Corporate Management Team and Members. Internal Audit reviews the adequacy, reliability and effectiveness of internal control and recommends improvements where appropriate. It also supports the development of systems, providing advice on risk and control. Effective internal controls are an important part of the Corporate Governance process. Through their audit assurance work, internal audit provide an opinion on the effectiveness of the systems of internal control.

As part of the annual review of governance arrangements and in particular the System of Internal Control, we undertake an annual review of the effectiveness of the system of internal audit.

(s) **External Audit**

The work is currently undertaken by Grant Thornton, who are required to deliver their audit work in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

(t) **Core Strategy and Local Plan**

The Core Strategy is the overarching statutory planning document for the District and was adopted by the Council in February 2010. The Core Strategy identifies the overall economic, social and environmental objectives for the District and the amount, type and broad location of development that is needed to fulfil those objectives. The Land Allocations Local Plan, which was adopted in 2015, identifies and allocates specific sites that are suitable for development in order to meet the Core Strategy's requirements.

Work is well underway in the development of a new District Local Plan which will replace the policies and proposals in the Council's Adopted Core Strategy, Land Allocations Local Plan and 'saved' policies from the 2002 Local Plan. Statutory consultation under Regulation 18 of The Town & Country Planning (Local Planning) (England) Regulations 2012 in respect of revised Local Plan took place between 20 January and 17 March 2021. Further details of the progress to adopt the new Local Plan can be found at the dedicated website [here](#).

(u) **State of the District Report**

This report is a backward look at the state of the district, highlighting key information under the headings of: District Overview, Population Profile; Housing; Economy, Business and Employment; Finance; Education and Skills; Regeneration Delivery; Health and Wellbeing; Deprivation and Poverty; Community Safety and Quality of Life.

Not all information is collected and reported annually, as it is collated from a wide range of sources that is sporadically updated. In addition, periodically the process of capturing information is changed, this in turn makes year-on-year comparisons and trends difficult to assess. The report is published on our website and there will be regular updates as new data is published, with members informed in a timely manner of any significant changes.

(v) **Communication and Consultation**

Strategies are in place. We have active Twitter and Facebook accounts, enabling the Council to communicate effectively with our communities and also enabling members

of the public to communicate their views on a wide range of matters. In 2015 the Council launched its 'Keep Me Posted' email alert service which enables members of the public to subscribe to email messages from the Council on a wide range of topics.

(w) **Equality**

As part of our equalities responsibilities, we publish our equality objectives and progress against the targets to ensure that all groups in our community have a voice, can be heard and know how we make our decisions. A revised equality policy was adopted by Cabinet in March 2016.

(x) **Whistleblowing**

A confidential reporting hotline is in place to enable internal and external whistleblowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous. There are also processes in place for staff to report through their line managers, Corporate Management Team or East Kent Audit Partnership.

(y) **Employment Management**

The Employment Management Group considers all requests to fill staff vacancies. The group is chaired by the Head of Regulatory Services and supported by the Head of Community and Digital Services, the Head of Governance, the Head of Finance and Investment and the EK Human Resources Business Partner. Their recommendations are considered by the Head of Paid Service who provides the final decision as to which posts can be filled.

(z) **Partnerships**

Partnership evaluation criteria have been established to help ensure that all key governance criteria are incorporated into new and existing partnerships.

4. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

We have a responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. This review is informed by the ongoing monitoring and review by the Strategic Director (Corporate Resources), EK Internal Audit Partnership and the Head of the Audit Partnership's Annual Report, the work of our Directors and Heads of Services and their managers who have responsibility for the development and maintenance of the governance environment. This review is also informed by the findings and reports of our external auditors together with any other review agencies or inspectorates.

(a) **The Monitoring Officer has responsibility for:**

- Monitoring the Constitution and keeping it up to date
- Identifying and reporting on any acts or omissions of the Council which he considers to be contrary to law
- Ensuring ethical standards and conduct are met

(b) **The Strategic Director (Corporate Resources) has responsibility for:**

- Publishing financial information and statements accurately and reliably.
- Confirmation that resources are managed efficiently and effectively.
- Overseeing and monitoring the Corporate Governance Local Code
- Maintaining and updating the code if required by best practice
- Reporting annually to members on performance and compliance with the code
- The overall review of the internal control opinion and framework evidence, including service assurance statements, the audit review of Corporate Governance, Performance reporting, Risk management arrangements and the individual audit and risk management assessments.
- Review of the Effectiveness of Internal Audit.
- The External Auditor's Annual Audit and Inspection Letter, service assessments and other associated reviews and ensuring that they are acted upon.

(c) **All Directors have responsibility via a Service Assurance Statement to ensure that:**

- Risks have been identified. They are recorded and monitored in accordance with the Council's Risk Management Strategy.
- Staff are fully aware of the requirements of their job, and have access to the appropriate Council rules and policies to assist them.
- Internal and External Audit reports and recommendations have been acted on.
- Reports from other review agencies have been acted on.
- Business arrangements are conducted in accordance with the law and proper standards.
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- The service has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to Corporate Governance is both adequate and effective.
- A statement of assurance that improvement plans exist to rectify any acknowledged deficiency.

(d) **Solicitor to the Council has responsibility:**

- Via his annual statement to give his opinion on the Council's compliance with relevant laws and regulations, and its legal obligations and requirements

(e) **Cabinet has responsibility for:**

- All Executive Decisions in respect of functions delegated to it by the Leader of the Council
- Setting robust and challenging targets and
- Monitoring the achievement of key priorities

(f) **Council has responsibility for:**

- Agreeing or amending the Policy Framework
- Agreeing or amending the budget, including the borrowing or capital expenditure strategy and setting the Council Tax

(g) **Overview & Scrutiny Committee has responsibility for:**

- Scrutiny of budgets and major policies
- Monitoring the achievement of key priorities
- Scrutiny co-ordination

(h) **The Governance Committee has a responsibility for:**

- Ensuring effective internal audit and internal control arrangements
- Receiving the annual Internal Audit Programme of work
- Receiving quarterly updates from the Head of the Audit Partnership on the assurance which can be placed against various systems and processes during the year
- Reviewing the annual assessment at the year end.
- Receiving the annual review of internal control
- Receiving the annual constitutional review
- Reviewing risk management arrangements
- Receiving Quarterly Treasury Management Reports
- Receiving the Annual Statement of Accounts
- Ethical standards of members and complaints against members

(i) **Internal Audit has responsibility to:**

- Provide an independent annual statement on the systems of internal control, highlighting areas of concern
- Report on the level of assurance in respect of the Council's internal control systems
- Provide an overall Assurance Statement from the Head of the Audit Partnership. This is compiled from the Internal Audit work programme and a review of this Council's Corporate Governance arrangements.

5. **THIS YEAR'S REVIEW**

(a) **Council**

Article 15 of the Council's Constitution makes provision for the regular review of the Constitution by the Monitoring Officer. The key focus of the review in 2020/21 was reviewing the scheme of delegations, improving transparency and accessibility reflecting changes to the Council's organisational structure, in particular the and the collation of changes made by decision making bodies such as Cabinet or Council during the course of the previous year. Due to the Coronavirus pandemic, the review for 19/20 was delayed and the report which was due to be considered by Governance Committee in March 2020 was considered by the Governance Committee in June 2020 who then recommended the changes for approval by full Council, which they did in July 2020. This has had a knock on effect for 2020/21 and Governance Committee will consider a further review in September 2021.

(b) **Cabinet**

Key Executive decisions were considered by the Cabinet, in particular relating to the budget and medium term financial plan, and the delivery of key regeneration priorities.

The Council's Quarterly Performance Report was received and reviewed quarterly. This examines our performance against agreed performance targets and our key priorities.

(c) **Scrutiny**

The Council's key priorities and Performance Indicators were reviewed regularly and challenged if necessary.

The Annual Report of the work of the Scrutiny Committees for 2020/21 was presented to the Annual Council Meeting on 19 May 2021. This identified sound governance arrangements, including an effective scrutiny process, which underpins the achievement of the Council's corporate objectives.

(d) **Governance Committee**

The Governance Committee received quarterly updates from the Head of East Kent Audit Partnership on the assurance which can be placed against various systems and processes during the year, including reviews of internal controls, along with the annual assessment. The Committee kept a check on those areas that have not achieved expected levels of audit assurance.

This Committee also reviewed the effectiveness of the Council's risk management arrangements.

The Strategic Director (Corporate Resources) and the Monitoring Officer are responsible for ensuring that the Constitution is reviewed regularly. It is not practical to undertake a review of the whole Constitution each year, so specific areas are selected each year. During 2020/21, the key focus of the review was reviewing the scheme of delegations, improving transparency and accessibility reflecting changes to the Council's organisational structure and the collation of changes made by decision making bodies such as Cabinet or Council during the course of the previous year. The Governance Committee recommended the changes for approval by the Council. All are documented on our website.

The Annual Report of the work of the Governance Committee for 2020/21 was presented to the Annual Council Meeting on 19 May 2021. This gave a positive opinion on the system of internal control. The Governance Committee continued to be assured of the integrity and reliability of data held in financial statements. The work undertaken by Internal and External Audit provided detailed assurance on those areas of the Council's work which were the subject of reports.

The assurances from the Strategic Director (Corporate Resources) and the Strategic Director (Operations and Commercial) and the work of Internal and External Audit together supported the Committee in forming their opinion of the financial statements, enabling them to agree to sign the 2019/20 accounts. For this year, the process will be delayed again but the committee will be provided with the necessary assurances to approve the 2020/21 accounts at its January 2022 meeting. The deadline for the final accounts to be approved has been changed by legislation owing to the Covid-19 pandemic.

The submission of this Annual Report continues to enhance the effective communication of our governance processes.

The Governance Committee received annual reports on the progress of formal service complaints against the Council and lessons learned from those complaints.

The Local Government Ombudsman received 13 complaints and enquiries against the Council during the 2019/20 municipal year and none were upheld. Data relating to the municipal year 2020/21 will be available from the Local Government Ombudsman in due course and will be reported to the Governance Committee.

Changes adopted by Council in January 2014, included a provision which allows Members to declare non-financial interests. The Kent Model Code of Conduct continues to be regularly reviewed in order to ensure that it remains fit for purpose. The ability to declare a non-financial interest has been welcomed by Members and has been utilised on several occasions to ensure transparency in decision-making.

(f) **Review of Internal Audit**

The effectiveness of internal audit is monitored by the Section 151 Officer through:

- Quarterly review meetings with the Head of Internal Audit
- Sign off of the Audit Plan
- Review of the internal audit annual report
- Attendance at Governance Committee
- Review of individual audit reports
- Meetings with the S151 officers of the other partners

(g) **The Work of Internal Audit**

The overall opinion of the System of Internal Controls in operation throughout 2020/21 based on the work of the East Kent Audit Partnership during 2019/20 was presented in their annual report to the Governance Committee in July.

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
- As at 31 March 2021 the Internal Auditors completed 226.22 days of review equating to 72.56% of planned completion. This is compared to the adjusted target of 75% planned completion, having lost quarter one (April, May and June 2020) to the staff having been redeployed.
- The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that was presented to the Governance Committee in July 2021.
- The EKAP have met as a team and considered the Public Sector Internal Audit Standards Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four s.151 Officers, acting as the EKAP Client Officer Group, continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.

- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment.

(h) **External Reviews**

There were no external reviews held this year.

(i) **Training**

Comprehensive Training is provided at the outset for the new Council and this is refreshed during the four year term, to ensure that the councillors have the skills and expertise to make sound and effective decisions.

The officer performance appraisal includes a personal Improvement plan, where training and development needs are discussed and agreed. These are provided annually to the Head of Governance to help inform the training needs of the organisation, some of which will be delivered corporately via the Corporate Training Plan. In 2020/21 a number of Managers and Team Leaders continued to work towards an Institute of Learning and Management qualification (level 3 or level 5), which helps enhance their skills and knowledge as leaders in the organisation.

(j) **Members Code of Conduct**

During 2020/21 the Monitoring Officer received twenty two complaints relating to members at ten authorities. The Governance Committee Hearing Panel did not meet during 2020/21.

During the municipal year 2020/21 there were no requests for dispensations.

6. **SIGNIFICANT GOVERNANCE ISSUES DURING THE YEAR**

- (a) The Annual Reports of the Scrutiny and Governance Committees provide a positive statement and opinion regarding the governance arrangements and the effectiveness of the internal control environment operating across this Council.
- (b) There were 13 cases reviewed by the Local Government Ombudsman during 2019/20, no maladministration was found.
- (c) The Notice of Forthcoming Key Decisions continues to publish key decisions to be taken by the Cabinet. Cabinet Reports are considered by Finance, Legal and Equalities Officers and then by CMT to ensure that outcomes are consistent with the Council's corporate direction.
- (d) A suite of performance indicator targets were approved by Cabinet at the start of the 2020/21 financial year and were then measured via the quarterly performance reports.
- (e) The General Data Protection Regulations (GDPR) came into force in May 2018 and an internal GDPR Project Team was established to support the review of retention schedules, the identification of information asset owners and the development of privacy notices for services across the Council. All members of staff undertook online GDPR training and briefings sessions have been provided for all Members to

attend. Updated Information Governance training and Guidance from the Data Protection Officer was delivered to all staff in 2020/21.

- (f) During 2019, significant concerns arose over the performance of East Kent Housing (EKH), mainly in relation to compliance, procurement, contract management and delivery of the capital programme. The four councils agreed that tenants should be consulted on whether housing management should become an in-house service. Following the outcome of that consultation, it was agreed on 12 February 2020 to bring the management of the Council's housing stock back in house. The management of the Council's housing stock transferred back in house with effect from 1 October 2020 and since that time, Cabinet have been kept regularly up to date with the progress.
- (g) In March 2020, the Covid-19 global pandemic started to escalate and the UK government imposed a nationwide lockdown meaning the majority of the Council's workforce was required to work from home. On 26 March 2020, special arrangements were made by the Leader of the Council in that the Chief Executive and each of the Directors were authorised to exercise any function which by virtue of the Local Government 2000 and regulations made under it is a function of the executive. This was a temporary measure to ensure executive decisions could be made promptly in a dynamic situation. These arrangements were formally revoked on 5 June 2020.
- (h) The Covid 19 pandemic continued throughout the entire period of the 2020/21 financial year and staff continued to be required to work from home. During the majority of this time, remote meetings were permitted, meaning that decision making could continue as normal.
- (i) Discussions relating to the continuation of the provision of a shared HR service were commenced in February 2021. EKHR is a service shared between Dover, Canterbury and Thanet Councils. Due to changing priorities across the authorities, all three Council's subsequently agreed to dissolve the shared service to bring the service in house with effect from 1 September 2021.

7. **IMPROVEMENTS DURING THE YEAR**

- (a) The Council continues to work with the Cabinet Office to obtain continued Public Sector Network (PSN) Compliance. This included IT Equipment, systems and software upgrades to ensure PSN compliance and to ensure that staff and members can work safely and securely from any location.
- (b) The East Kent Corporate Information Governance Group continues to meet on a regular basis with the suite of Information Governance Policies (16 in total) being kept under regular review by the group. A full review of the policies was undertaken and approved by the General Purposes Committee in December 2020. The Head of Governance remains appointed as the Council's Senior Information Risk Officer (SIRO) with the Digital Services Manager as the Deputy SIRO.
- (b) The officer Conditions of Service Working Group continues to oversee the employee terms and conditions and ensures that they remain up to date and relevant.
- (c) The 2020/21 Pay Policy Statement was delivered and adopted at the Council Meeting in February 2021.
- (e) A forward looking action plan has been prepared for 2020/21 and this will be kept under regular review by the Head of Governance and reviewed by the Governance Committee at its January 2022 meeting.

8. **OPINION OF THE HEAD OF GOVERNANCE**

I can confirm that the governance arrangements provide and continue to be regarded as fit for purpose in accordance with the governance framework and will ensure that that the implementation is monitored as part of the next annual review.

Signature:: _____ Date: _____
Louise May
Head of Governance

9. **STATEMENT OF THE LEADER OF THE COUNCIL AND THE CHIEF EXECUTIVE**

We have reviewed the effectiveness of the Council's governance framework and noted the opinion and commitment of the Head of Governance. We sign this Annual Governance Assurance Statement on behalf of the Council.

Signature:: _____ Date: _____
Councillor Trevor Bartlett
Leader of the Council

Signature:: _____ Date: _____
Nadeem Aziz
Chief Executive

Governance Assurance Statement Action Plan – Backward Looking

Action Description	Evidenced by	Due
The corporate plan to be been kept up to date and any necessary update is published	Corporate plan is up to date and published on the website	31/03/21
The Constitution and Code of Conduct are subject to an annual review and updated where applicable	The constitution has been reviewed and changes and amendments are agreed by the Governance Committee and Council	31/03/21
Business Plans prepared and published for each division	Business plans for the forthcoming year completed and returned to Corporate Services.	31/03/21
Quarterly performance reports all reviewed by Cabinet and Scrutiny.	Performance reports published on the website.	31/03/21
	Performance reports reviewed by Cabinet and Scrutiny as per minutes published on the Website.	31/03/21
Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	Agreed high risk recommendations following audit reviews are followed up in a timely manner by management	31/03/19
	Quarterly audit reports covering audit reviews and follow up reviews are received by Governance Committee	31/03/21
Governance Committee have received reports on the progress of formal service complaints against the Council and lessons learned from those complaints.	Governance committee review progress on all formal service complaints at least annually. Reports published on website.	31/03/21
Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner.	Breaches of the Member Code of Conduct have been considered by the Monitoring Officer throughout the year.	31/03/21
Audit undertake their annual review of the effectiveness of systems of internal control.	Audit have completed their annual review of the system of internal control and the results are built in to their annual report	31/03/21
Governance Framework reviewed and any amendments approved.	No changes during 20/21. All further amendments approved by the Governance Committee and Council.	31/03/21
The provision for clawback of MMI insurance claims is reviewed and is adequate.	MMI provision is as per the MMI annual statement	31/03/21
Officer Training Plan Developed	Corporate Training Needs agreed and training plan delivered.	31/03/21
	Induction Training for new starters review is pending the return of an in house Human Resources team.	
Corporate Information Governance	Periodic review of the corporate	31/03/21

Action Description	Evidenced by	Due
	information and security governance framework and policies for East Kent.	
Apprenticeship Levy	Compliance with the Government requirements, including procurement of appropriate training for new apprentices.	31/03/21
Complete the transfer of the management of the Council's Housing stock back in house and secure regulatory compliance	Transfer completed 1 October 2020. Quarterly audit reports received by the Governance Committee. Regular updates to Cabinet.	31/03/21
Stabilisation of the Council's finances following the Covid-19 pandemic	The presentation of a balanced budget to Council for approval.	31/03/21

Governance Assurance Statement Action Plan – Forward Looking

Action Description	Evidenced by	Due
The corporate plan to be been kept up to date and any necessary update is published	Corporate plan is up to date and published on the website	31/03/22
The Constitution and Code of Conduct are subject to an annual review and updated where applicable	The constitution has been reviewed and changes and amendments are agreed by the Governance Committee and Council	31/03/22
Business Plans prepared and published for each division	Business plans for the forthcoming year completed and returned to Corporate Services.	31/03/22
Quarterly performance reports all reviewed by Cabinet and Scrutiny.	Performance reports published on the website.	31/03/22
	Performance reports reviewed by Cabinet and Scrutiny as per minutes published on the Website.	31/03/22
Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	Agreed high risk recommendations following audit reviews are followed up in a timely manner by management	31/03/22
	Quarterly audit reports covering audit reviews and follow up reviews are received by Governance Committee	31/03/22
Governance Committee have received reports on the progress of formal service complaints against the Council and lessons learned from those complaints.	Governance committee review progress on all formal service complaints at least annually. Reports published on website.	31/03/22
Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner.	Breaches of the Member Code of Conduct have been considered by the Monitoring Officer throughout the year.	31/03/22
Audit undertake their annual review of the effectiveness of systems of internal control.	Audit have completed their annual review of the system of internal control and the results are built in to their annual report	31/03/22
Governance Framework reviewed and any amendments approved.	All amendments approved by the Governance Committee and Council.	31/03/22
The provision for clawback of MMI insurance claims is reviewed and is adequate.	MMI provision is as per the MMI annual statement	31/03/22
Officer Training Plan Developed	Corporate Training Needs agreed and training plan delivered.	31/03/22
	Induction Training for new starters reviewed by the in house HR team	
Corporate Information Governance	Periodic review of the corporate information and security governance framework and policies for East Kent.	31/03/22

Action Description	Evidenced by	Due
Apprenticeship Levy	Compliance with the Government requirements, including procurement of appropriate training for new apprentices.	31/03/22
Stabilisation of the Council's finances following the Covid-19 pandemic	The presentation of a balanced budget to Council for approval	31/03/22