



Meeting: **Corporate Governance Committee**

Date/Time: **Friday, 23 July 2021 at 10.00 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

Contact: **Mrs L Walton (tel: 0116 305 2583)**

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Membership

Mr. T. Barkley CC (Chairman)

Mr. N. D. Bannister CC Mr. J. G. Coxon CC
Mr. D. C. Bill MBE CC Mr. J. T. Orson JP CC
Mr. G. A. Boulter CC Mr. T. J. Richardson CC

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 4 June 2021.		(Pages 3 - 14)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. Risk Management Update.	Director of Corporate Resources	(Pages 15 - 32)

As part of this item a presentation will be given on Corporate Risk 9.4 (If climate change impacts happen more frequently or at a



greater intensity than anticipated, then there is the risk that County Council services will be negatively affected).

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| 7. | Annual Report on the Operation of the Members' Code of Conduct 2020/21. | Director of Law and Governance | (Pages 33 - 36) |
| 8. | Supplier Code of Conduct. | Director of Corporate Resources | (Pages 37 - 48) |
| 9. | Draft Annual Governance Statement 2020/21. | Director of Corporate Resources and Chief Executive | (Pages 49 - 94) |
| 10. | Internal Audit Plan and Progress Report and Further Update on Developments in Local (External) Audit Arrangements. | Director of Corporate Resources | (Pages 95 - 114) |
| 11. | Quarterly Treasury Management Report. | Director of Corporate Resources | (Pages 115 - 124) |
| 12. | Date of next meeting. | | |

The next meeting is scheduled to take place on Friday 5th November at 10.00am.

13. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Friday, 4 June 2021.

PRESENT

Mr. N. D. Bannister CC
Mr. T. Barkley CC
Mr. G. A. Boulter CC
Mr. J. G. Coxon CC

Mr. M. Hunt CC
Mr. J. T. Orson JP CC
Mr. T. J. Richardson CC

1. Appointment of Chairman.

RESOLVED:

That Mr. T. Barkley CC be elected Chairman for the period ending with the date of the Annual Meeting of the County Council in 2022.

Mr. T. Barkley CC in the Chair.

2. Election of Vice Chairman.

RESOLVED:

That Mr. T. J. Richardson CC be elected Vice Chairman for the period ending with the date of the Annual Meeting of the County Council in 2022.

3. Minutes.

The minutes of the meeting held on 29 January 2021 were taken as read, confirmed and signed.

4. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

5. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

6. Urgent Items.

There were no urgent items for consideration.

7. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Mr. T. J. Richardson CC declared a personal interest in agenda items 14 and 15 (Quarterly and Annual Treasury Management Reports) (minutes 14 and 15 below refer) as he was in receipt of a pension from Lloyds Bank Plc.

Mr. N. Bannister CC declared a personal interest in agenda item 8 (Risk Management Update) (minute 8 below refers) in relation to the fraud investigations outlined in the report as he was a member of the Crown Prosecution Service. He also declared a personal interest in agenda item 9 (Final Outcomes of Public Reports Issued by the Local Government and Social Care Ombudsman) (minute 9 below refers) as the report referred to school admissions in academy schools and a member of his immediate family worked as a Teaching Assistant at a local academy school.

8. Risk Management Update.

The Committee considered a report of the Director of Corporate Resources which was to provide an overview of key risk areas and the measures being taken to address them. The report also provided updates on counter fraud and the Council's recovery planning in response to the impact of the Covid-19 pandemic. A copy of the report marked 'Agenda Item 8', is filed with these minutes.

As part of this item, the Committee also received a presentation by the Director of Environment and Transport Department, on Corporate Risk 4.3 on the Corporate Risk Register (If as a result of the impacts of the coronavirus pandemic bus operators significantly change their services, then there could be substantial impacts on communities accessing essential services and lead to required intervention under our Passenger Transport Policy and Strategy). A copy of the presentation slides is filed with these minutes.

Risk Presentation

Arising from discussion and questions the following points arose:

- (i) The results of engagement and consultation with non-bus users as well as current users of local bus services would be a key consideration in terms of informing future strategies to manage future demand, understand future business needs and attract new customers to use bus services.
- (ii) Further guidance in respect of cross boundary services was awaited from the Government but the Enhanced Partnership Scheme within the National Bus Strategy (NBS) was expected to leave responsibility with bus operators to ensure that cross boundary challenges were raised within the relevant partnerships. The Council also planned to continue working with local partners such as Leicester City Council and bus service operators in an effort to overcome such challenges.
- (iii) Regarding whether there were any options to mitigate Corporate Risk 4.3 that did not require the Council to sign up to the NBS and issue a statutory notice, it was advised that the options currently available were limited, particularly where rural areas were concerned, and if the Council did not sign up to the National Bus

Strategy this would create a risk to future funding as the Government was linking the availability of future funding to actions associated with the Strategy. The Enhanced Partnership Scheme was expected to place a greater level of responsibility with bus operators but provide a greater number opportunities for the Council to influence certain areas, so this was likely to be the most suitable option. The other option under the NBS would be Franchising, however due to a number of factors including the rural nature of the County this was deemed as a less suitable option at the current time but the Environment and Transport Department would keep the situation under review to keep track of the options available.

- (iv) Concern was raised regarding the short timeframe for work including engagement with the public and key partners to be undertaken by local authorities to produce and publish a Bus Service Improvement Plan by the end of October 2021. The Director acknowledged the timescales set by Central Government were ambitious and confirmed that officers were not underestimating the amount of work that needed to be carried out overall between now and the end of March 2022 when the Enhanced Partnership Agreement with operators was expected to be in place.
- (v) The intention was for the 'public' engagement exercise to begin once Cabinet approval of the NBS pathway to be followed had been given, the item was currently programmed to be presented to the Cabinet in October 2021, and that this would run through to March 2022 ahead of the Enhanced Partnership Agreement/Approach being introduced. It was envisaged that the approach would eventually become part of normal ways of working and be refreshed as necessary.
- (vi) In response to questions raised by a member regarding the Council's plans to trial a demand responsive transport scheme (DRTS) in a rural area, the Director confirmed the following points:
- The trial would provide an opportunity for the Council to test DRTS solutions in a rural area and work with service providers to understand the broader applicability across Leicestershire. Ensuring commercial viability of services where there were no developer funding contributions available would also be a key consideration.
 - Feedback and experiences from the Arriva Click DRT service in New Lubbethorpe would feed into the trial and details of this service had been used to inform the Rural Mobility Fund bid.
 - In response to a query regarding the potential to gain evidence from other areas that had trialled DRTS' such as Liverpool and Sittingbourne, the Director undertook to provide further information on where best practice and lessons learnt examples that were used to inform the Rural Mobility Fund bid had been obtained and how this information would be used going forward.
 - Members noted that a condition of the Council receiving the rural mobility funding it had been awarded to carry out the trial was the requirement to follow a particular procurement process and one of the requirements of that process was around ensuring fair competition in the market, the detail of which officers were currently in the process of working through.

Risk Management Update

Arising from discussion the following points arose:

- (vii) In response to a question relating to Corporate Risk 7.3 (If the Department fails to develop and maintain a stable, sustainable, and quality social care market to work with it may be unable to meet its statutory responsibilities), the Director undertook to provide further information to Committee members outside of the meeting regarding the timescales around the re-commissioning of domiciliary care services.
- (viii) The Director of Law and Governance advised that as far as she was aware Corporate Risk 4.4 (Risk of challenge and/or financial penalty due to either an actual or perceived breach of procurement guidelines) had been added to the Corporate Risk Register to capture a number of procurement risks raised nationally to ensure these were fully reflected in the register.
- (ix) Regarding the outcomes of the five fraud cases the Council had investigated during 2020/21, the Director confirmed that, despite some referrals that had been made to other authorities such as to the police where further action was considered by the County Council to have been required, there had been no notification of prosecutions with these cases as such. It was stated that the Local Government Transparency Code did not require the Council to include any details about prosecutions in the summary it published annually to its website. However, it would be possible to provide members of the Committee with further details of the investigation outcomes outside of the meeting.
- (x) Following a suggestion made by a member, the Director of Corporate Resources undertook to give consideration to the risk management process to ensure member oversight of departmental risk registers was sufficient.
- (xi) Members requested that a presentation be given at the Committee's next meeting on Corporate Risk 9.4 (If climate change impacts happen more frequently or at a greater intensity than anticipated, then there is the risk that County Council services will be negatively affected).

[Subsequent to the meeting the Director of Law and Governance undertook to provide further details to Committee members relating to Corporate Risk 4.4 to clarify the reason why the risk had been added to the Corporate Risk Register.]

RESOLVED:

- (a) That the current status of the strategic risks facing the County Council be approved and the Director of Corporate Resources be requested to give consideration to the comments now made.
- (b) That the contents of the presentation provided on Corporate Risk 4.3 (If as a result of the impacts of the coronavirus pandemic bus operators significantly change their services, then there could be substantial impacts on communities accessing essential services and lead to required intervention under our Passenger Transport Policy and Strategy) be noted and the Director of Corporate Responses be requested to provide further information on the Council's plans to trial a demand responsive transport scheme in a rural area.

- (c) That at the Committee's next meeting a presentation be provided on Corporate Risk 9.4 (If climate change impacts happen more frequently or at a greater intensity than anticipated, then there is the risk that County Council services will be negatively affected).
- (d) That the Director of Corporate Resources be requested to provide further information on the timescales around the re-commissioning of domiciliary care services.
- (e) That the Director of Corporate Resources be requested to give consideration to the risk management process to ensure member oversight of departmental risk registers is sufficient.

9. Final Outcomes of Public Reports Issued by the Local Government and Social Care Ombudsman.

The Committee considered a joint report of the Director of Law and Governance and the Director of Children and Family Services, the purpose of which was to provide an update on the final outcomes following the issuing of two public reports by the Local Government and Social Care Ombudsman (LGO) about the County Council in recent months. A copy of the report marked 'Agenda Item 9', is filed with these minutes.

Arising from discussion the following points arose:

- (i) Members were advised that the actions in the Improvement Action Plan set out in Appendix C to the report that were marked as complete but awaiting further sign off either by the Department Management Team (DMT) or Leicestershire Heads had now been signed off and were therefore fully concluded.
- (ii) The Committee noted that subject to agreement of financial payments to the further 79 third parties identified as being affected by charging mechanisms adopted by the provider in question relating to the Free Early Education Entitlement (FEEE) scheme, all actions required by the two separate LGO investigations detailed in the report had been carried out. It was agreed that a briefing note would be circulated to all members of the Committee to advise them of the final outcomes of the outstanding action once discussions with the relevant parties had concluded.

RESOLVED:

- (a) That the report regarding the final outcomes of the public reports issued by the Local Government and Social Care Ombudsman be noted.
- (b) That the Director of Law and Governance and Director of Children and Family Services be requested to provide a briefing note to Committee members regarding the final outcomes of the outstanding action in relation to the Free Early Education Entitlement (FEEE) scheme once discussions with the relevant parties have concluded.

10. Annual Audit Letter 2019/20.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the Annual Audit Letter 2019/20 for approval. A copy of the report marked 'Agenda Item 10', is filed with these minutes.

The Chairman welcomed Mr John Gregory from Grant Thornton UK LLP, the County Council's external auditors for 2019/20, to the meeting.

Mr Gregory confirmed that an unqualified opinion had been issued on the Authority's accounts for the year ending March 2020 and the value for money conclusion issued for that period was also unqualified. He stated that as previously reported to the Committee the Emphasis of Matter (EoM) that had been included in Grant Thornton's audit opinion regarding the valuation of land and buildings, was simply an additional paragraph to draw the reader's attention to a particular part of the accounts, in this case to acknowledge disclosures of material uncertainty that had been made in the Bruton Knowles' valuation report as at 31 March 2020 as a result of the Covid-19 pandemic.

Mr Gregory also confirmed that with regard to the Whole of Government Accounts the work referred to in the Annual Audit Letter to complete the work on the Council's consolidation return following guidance issued by the National Audit Office was now complete, there were no outstanding issues to report on this matter and an assurance statement would be issued to this effect.

Arising from discussion and questions the following points were raised:

- (i) In response to concerns raised regarding the disparity between the planned fees for the period and the actual fees charged to the Council for the year ending March 2020, Mr Gregory advised the following:
 - The areas of additional work unrelated to the Covid-19 pandemic had been foreseen, negotiated with the relevant Council officers and factored into the relevant Audit Plan to communicate that fee increases were expected. The increases had also been discussed with the Public Sector Audit Appointments Ltd. (PSAA) (the sector led body for external auditor appointments) around the same time and subsequently approved. These fee increases reflected the pressures Grant Thornton was facing to make the changes imposed by regulators to national auditing standards such as around pension liabilities and Property, Plant and Equipment (PPE). For example, there was now an expectation for auditing companies to employ its own or obtain advice from valuation experts to help support the work around the valuation of PPE.
 - The effects of the Covid-19 pandemic had caused the costs to Grant Thornton to deliver audits for the year ending March 2020 to increase significantly by around 40-50%. Rather than recovering all of the costs from its clients, Grant Thornton had absorbed much of the costs itself and asked its clients to pay a proportion of the total amount. The additional fees were necessary due to the additional work that the pandemic had created, particularly as due to the Covid-19 restrictions much of the usual informal contact had not been possible and work ordinarily carried out face to face had had to be conducted remotely which could often be a longer process and had caused delays in auditing processes. There had also been specific technical accounting issues to

resolve. Members were further advised that these issues were also not isolated to Grant Thornton in that other companies had also experienced similar issues.

- As to whether Grant Thornton was able to offset some of the additional costs relating the Covid-19 pandemic against a perceived reduction in chargeable travel time to appointments, Mr Gregory explained that whilst staff travelling to attend meetings such as at County Hall may have been chargeable the majority of travel that Grant Thornton's audit team undertook prior to the pandemic to carry out audits would have usually formed part of their daily commute and would therefore not be chargeable to clients.
- (ii) In response to a query raised by a member, it was confirmed that the valuation of pensions was an area also considered by the Local Pension Board and Committee. Mr Gregory added that each year auditors were required to consider their report against other areas of reporting to ensure consistency.

RESOLVED:

That the Annual Audit Letter for 2019-20 be approved and distributed to all Members of the Council.

11. External Audit Plan and Risk Assessment 2020/21.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the External Audit Plan and Audit Risk Assessment for the Council and its Pension Fund for consideration. A copy of the report marked 'Agenda Item 11', is filed with these minutes.

In presenting the item, Mr John Gregory from Grant Thornton UK LLP, highlighted that there would be further significant increases in auditing fees for the County Council and the Pension Fund for the year 2020/21. This was mainly due to the revised approach to the Value for Money audit and additional requirements from the Financial Reporting Council (FRC) in relation to improved financial reporting and a number of revised International Auditing Standards (ISA's), which would require increased audit work. Given the increased expectation on audit firms was across all sectors and audit firms, Mr Gregory advised that Grant Thornton had raised its concerns to the PSAA to request the matter of audit fees be managed as a national issue but the PSAA had confirmed it did not see this as part of its role. It had therefore been necessary for Grant Thornton to increase its fees for all of its local authority clients with the County Council maintaining the lowest fee applied by Grant Thornton.

It was questioned, given the implications of the revisions to International Auditing Standards had been known for some time, whether the original quotes made by Grant Thornton for its auditing services were too low. Mr Gregory acknowledged there was a possibility that Grant Thornton and other firms may have bid too low at the time of the tendering exercise. However, an important consideration with this was that the tendering exercise that influenced the scale fees being set by the PSAA had been designed in such a way that pushed prices down considerably. This matter had been captured as an element that had created damage to the local (external) audit system as part of the findings of the independent Redmond Review into the effectiveness of local (external) audit.

RESOLVED:

That the contents of the report be noted.

12. Update on Developments on Local (External) Audit Arrangements.

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance, the purpose of which was to provide an update on developments in local (external) audit arrangements that are associated with the Committee's responsibilities. A copy of the report marked 'Agenda Item 12', is filed with these minutes.

RESOLVED:

That the Ministry of Housing, Communities and Local Government report 'Local authority financial reporting and external audit: Spring update' be noted.

13. Proposed Changes to the Contract Procedure Rules.

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance, the purpose of which was to report on the operation of the Contract Procedure Rules between 1 July 2020 and 31 March 2021 and propose that recommendations to the County Council are made to revise the Contract Procedure Rules. A copy of the report marked 'Agenda Item 13', is filed with these minutes.

Arising from discussion and questions the following matters were raised:

- (i) In regard to the contract exceptions set out in Appendix A to the report, members requested the following information, which the Director undertook to provide to the Committee outside of the meeting:
 - Confirmation of whether the new contract for Arboriculture Maintenance Services on Schools and Other Council Properties in Leicestershire to undertake 'top up' forestry and tree care services, which was anticipated would be in place by 1 April 2021, had become effective.
 - The reason for granting a contract exception for the treatment of Dry Recyclables arising within Leicestershire.
 - The reason for granting a contract exception in relation to the Green Homes Grant Scheme given this was a government funded scheme.
- (ii) Members requested further details regarding the approval process for contract exceptions and extensions. With particular consideration to larger contract values, it was felt that given the financial pressures the Council was currently facing and the recent developments in local external audit, such as the outcomes of the Redmond Review making reference to the need for greater member oversight in certain areas, ensuring sufficient member involvement in the approval process was an important factor. In response to member's comments, to enable consideration to be given as to whether member involvement in the process of approving contract exceptions and extensions was sufficient, the Director undertook to provide the Committee with details of the current approvals process for contract exceptions and extensions to highlight where member involvement occurred in relation to the associated thresholds/conditions, details of where these thresholds and conditions were met in the exceptions listed in Appendix A of the

report and how they were executed, and details of the thresholds put in place around spend controls to justify why low value exceptions appeared in the report to the Committee.

RESOLVED:

- (a) That the contents of this report on the operation of the Contract Procedure Rules between 1 July 2020 and 31 March 2021 be noted and that the Director of Corporate Resources be requested to give consideration to the comments now raised.
- (b) That the County Council be recommended to approve the proposed amendments to the Contract Procedure Rules, as set out in Appendix B of the report.
- (c) That the Director of Corporate Resources be requested to provide details of the current process for approving contract exceptions and extensions and further details around the approvals made on the contract exceptions and extensions set out in Appendix A of the report.

14. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources which provided an update on the actions taken in respect of treasury management for the quarter ending 31 March 2021. A copy of the report marked 'Agenda Item 14', is filed with these minutes.

Arising from questions the following points arose:

- (i) Regarding the options available to the Council for short term investment, the Director confirmed that officers would always consider the options available at the appropriate time to weigh up the risk with the reward and try to maximise the return for the Council's portfolio. However, given the low interest rates currently forecasted, which were expected to last for some time, and the requirements relating to cash flows in the Council's Treasury Management Strategy, the options to gain a substantial return were likely to be limited until the rates showed sign of improving. As to whether some of the balance could be invested into running council services, it was confirmed that this would not be possible as the purpose of this type of money was restricted to managing cash flows.
- (ii) When considering making an investment under the Council's loan portfolio to a bank, it was usual practice for officers to acquire a list of bank ratings from the Council's treasury management advisors to determine suitability. Investments would only be made to organisations that met the Council's list of requirements. As to the reasoning behind the investment made to the Australia and New Zealand Bank, this would have been deemed the most suitable option available to the Council at the time the investment was made.

RESOLVED:

That the actions taken in respect of treasury management for the quarter ending 31 March 2021 be noted.

15. Annual Treasury Management Report 2020/21.

The Committee received a report of the Director of Corporate Resources, the purpose of which was to advise of the action taken and the performance achieved in respect of the treasury management activities of the Council in 2020/21. A copy of the report marked 'Agenda Item 15', is filed with these minutes.

RESOLVED:

That the action taken and the performance achieved in respect of the treasury management activities of the Council during 2020/21 be noted.

16. Internal Audit Service - Annual Report 2020/21.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an annual report on the work conducted by the Internal Audit Service (IAS) with the intention that this then be distributed to all members of the Council. A copy of the report marked 'Agenda Item 16', is filed with these minutes.

Regarding the IAS' budget underspend relating to unfilled vacancies, it was confirmed that this had been a result of the impact of the Covid-19 pandemic and the uncertainty of future plans this had created. The service had been required to respond reactively to a number of the additional demands the Council had faced which included a number of staff within the service being redeployed to assist in other areas. This issue had since been addressed in the IAS Audit Plan for 2021/22; the restructure of the service was progressing and there had been approvals for additional resources and retention held in the budget for any special requirements that may arise.

RESOLVED:

That the annual report on work conducted by the Internal Audit Service during 2020/21 be noted.

17. Internal Audit Service Audit Plan 2021/22.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide members with information about the approach to develop the County Council's IAS Plan for 2021/22. A copy of the report marked 'Agenda Item 17', is filed with these minutes.

Members noted the change in the approach for the 2021-22 IAS Plan and the proposal to adopt six monthly planning cycles to modernise the planning routine. The aim was to create greater flexibility by developing and maintaining shorter plans which would be reviewed and updated more regularly to reflect current priorities. Members further noted that this approach was in common with the approach many other Head of Internal Audit Services' at other councils were adopting on reflection of the impact of the Covid-19 pandemic and the effects this had on IAS Audit Plans.

A member commented on the changes to working practices that had resulted from the Covid-19 pandemic and it was queried how the IAS plans would fit in with the longer-term strategic intentions around future ways of working. The Director explained that the instant necessity for a high number of staff to work remotely at the beginning of the pandemic had meant that the IAS experienced continuous demand at that time, particularly

because assurance was needed in areas such as IT security. Looking ahead it was expected that the Council's programme to develop new ways of working would involve further extensions of agile working and the IAS team would be actively involved in areas such as approval processes, development of softer skills, staff wellbeing and health and safety audits.

RESOLVED:

That the Committee notes the development of the methodology of the Internal Audit Plan for 2021-22.

18. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources, which summarised the work conducted during the period 9 January to 14 May 2021 and highlighted audits where high importance recommendations had been made. a copy of the report marked 'Agenda Item 18', is filed with these minutes.

RESOLVED:

That the update now provided, and the internal audit work conducted during the period 9 January to 14 May 2021, together with progress made on the implementation of high importance recommendations, be noted.

19. Date of next meeting.

It was noted that the next meeting was scheduled to be held on Friday 23 July at 10.00am.

2.00 – 4.12pm
4 June 2021

CHAIRMAN

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CORPORATE GOVERNANCE COMMITTEE – 23 JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the roles of the Corporate Governance Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them. This is to enable the Committee to review or challenge progress, as necessary, as well as highlight risks that may need to be given further consideration. This report covers:
 - The Corporate Risk Register (CRR) – summary of risks.
 - Counter fraud Initiatives

Corporate Risk Register (CRR)

2. Within the County Council's Constitution, Article 9.03 'Role and Function of the Corporate Governance Committee' states that the Committee shall have responsibility for the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Code of Corporate Governance with an emphasis on ensuring that an adequate risk management framework and associated control environment is in place.
3. The Council maintains Departmental Risk Registers and a Corporate Risk Register (CRR). These registers contain the most significant risks which the Council is managing, and which are 'owned' by Directors and Assistant Directors.
4. The CRR is designed to capture strategic risk that applies either corporately or to specific departments, which by its nature usually has a long time span. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added to the CRR as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded, the risk scores will be reassessed, and this will result in some risks being removed from the CRR and managed within the relevant departmental risk register.

5. The current risks on the CRR (last presented to the Committee on 4 June 2021) are shown in Appendix A attached to this report. The impact and likelihood are shown below each current risk score. The short time period between the last report to Members and the current review of Departmental Risk Registers and associated reporting timescale (also June) has meant there are fewer movements against some risks.

Movements since the CRR was last presented are detailed below:

Risks added

Chief Executive's Department

- Risk 1.11 - The Freeport requires designation by Government to be operational. That is dependent on approval of the business case. The outline case has to be submitted by 10th September 2021 and will be subject to a 'gateway review'. If designation is not achieved there will be serious reputational consequences for the East Midlands region and partners in the Freeport proposal.

Integrated Care Systems - Consolidated risk covering Children & Family Services, Public Health and Adult Social Care

- Risk 2.4 - If the Council and its partners do not deliver a sustainable health and social care system which results in vulnerable people not having their health and social care needs met, there is a potential that increased demand on social care services will lead to the escalation of vulnerable people's needs.

Risk Amended

All Departments

- Risk 1 - If the Council does not plan, prepare and respond adequately to future developments in relation to both the COVID 19 pandemic and recovery to a "new normal" level of services, it could suffer long lasting economic, environmental, societal and technological challenges and miss opportunities.

Amended to:

- If the Council does not on an ongoing basis plan for, prepare and respond to current and future consequences of the COVID-19 pandemic, the Council and its communities could suffer long lasting economic, environmental, societal, technological challenges and missed opportunities.

Presentation

6. In accordance with the Committee's request at its meeting on 4 June 2021 a presentation will be provided as part of this item on the Corporate Risk 9.4 - If climate change impacts happen more frequently or at a greater intensity than anticipated, then there is the risk that County Council services will be negatively affected.

Emerging Risks.

Norfolk Judgement

7. In December 2020, the High Court ruled that Norfolk County Council had breached the rights of a woman by discriminating against her when it changed its care charging policy. The Council is closely monitoring the implications of the High Court decision in for its own charging policy for care and support charges. It is reviewing its public sector equality duty in respect of the decision and is currently considering a range of legal opinions on the case. Any subsequent changes to the charging policy as a result of the decision will have an impact on income received towards the cost of care and support services.

Adults and Communities – Medium Term Financial Strategy (MTFS)

8. There is an increasing risk that there will be a significant financial impact of COVID-19 on adult social care services and the MTFS. The costs of care packages have increased during the pandemic as has the number of people receiving homecare. Another significant impact is the loss of service user and Health income. Whilst the Council was compensated during the pandemic, by Health, the support is being withdrawn and it is likely financial implications will last several years.

Counter Fraud Initiatives

Cyber Risk in Schools

9. As a result of the Council working in conjunction with the Leicestershire Police's Cyber Crime Unit, the Police recently launched two webinars for Leicestershire's schools and academies, one aimed at the Senior Leadership Team and the other of a more technical nature aimed at school ICT managers and technicians, providing advice to schools and academies regarding the risk of cyber-crime, in particular ransomware attacks. Nationally, there is an increasing number of cyber-attacks within the schools' sector, with ransomware providing the greatest risk of all as hackers look to lock down schools' systems in return for financial gain. The Police webinars not only raised awareness of the risk but provided advice on how the risk can be mitigated through common sense controls such as having a robust off-site back-up process, effective user management (e.g. deletion of leavers), good password protocols, multi-factor authentication and optimal configuration of solutions such as Office 365.
10. Both internal audit and other relevant sections within the Council have taken proactive steps to advise schools and academies of the best practice advice regarding managing the risk of cyber-crime, including ransomware. The Council's role includes signposting schools and academies to published resources from the National Cyber Security Centre (NCSC), the Police, the Department for Education, and other experts in the field. This includes through the termly Audit Bulletin, the Leicestershire Traded Services website and via departmental comms to Headteachers.

Recommendations

It is recommended that the Committee:

- a) Approves the current status of the strategic risks facing the County Council.
- b) Makes recommendations on any areas which might benefit from further examination and identify a risk area for presentation at its next meeting.
- c) Notes the updates regarding emerging risks and Counter Fraud Initiatives.

Resources Implications

None.

Equality and Human Rights Implications

None.

Circulation under the Local Issues Alert Procedure

None.

Background Papers

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 18 January 2019, 10 May 2019 and 1 November 2019, 31 January 2020, 12 June 2020, 24 July 2020, 25 November 2020, 29 January 2021, and 3 June 2021.

<http://politics.leics.gov.uk/ieListMeetings.aspx?Committeeld=434>

Officers to Contact

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



Appendices




Appendix A - Corporate Risk Register Update (June 2021)



CORPORATE RISK REGISTER – UPDATE ON RISKS



APPENDIX A




Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department’s management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
Coronavirus – COVID-19					
All	1	If the Council does not on an ongoing basis plan for, prepare and respond to current and future consequences of the COVID 19 pandemic, the Council and its communities could suffer long lasting economic, environmental, societal, technological challenges and missed opportunities.	20 15/L4	The degree of risk is likely to change due to external factors but will be kept under review.	 Expected to remain red/high
1. Medium Term Financial Strategy					
All	1.1	Risk around the MTFS including the ability to deliver savings through service redesign and Transformation as required in the MTFS, impact of the living wage, legal challenges, and importantly demand/cost pressures especially those arising in Adults and Children’s Social Care.	25 15/L5	<p><u>MTFS</u> New campaign approach being developed to lobby for fair funding, including additional focus on capital funding.</p> <p>The Council has a Covid-19 budget in place to mitigate the major 2021/22 risks with an assessment in Autumn with a view to redirecting resources to the Council’s priorities subject to the pandemic. However, this provision is only one-off, and any ongoing costs will exacerbate LCC’s financial position.</p> <p>Work is underway to produce the MTFS 2022-26 with a report to Cabinet (September) to set the scene for the challenge.</p> <p>Increasing demand for capital schemes (e.g. local plans) and the expected cost (e.g. cost of materials) is increasing the financial shortfall for the programme.</p> <p>MTFS savings continue to be progressed, as does the development of the Savings Under Development.</p>	 Expected to remain high/red



Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
CE	1.3	If the Council fails to maximise developer contributions, then there could be a failure to fund corporate infrastructure projects.	16 14/L4	Improvement project began in January 2021 which will lead to new processes, ways of storing data and monitoring obligations. It will also allow better monitoring of spend against projects. The project is expected to be completed by December 2021.	 Expected to move to Medium/Amber
C&FS	1.5	<u>Social Care:</u> If the number of high cost social care placements (e.g. external fostering, residential and 16+ supported accommodation) increases (especially in relation to behavioural and CSE issues) then there may be significant pressures on the children's social care placement budget, which funds the care of vulnerable children.	25 15/L5	No update to previously reported position	 Expected to remain high/red
C&FS	1.6	<u>Education</u> If demand for Education Health and Care Plans (EHCP) continues to rise, and corrective action is not taken, there is a risk that the high needs deficit will continue to increase.	25	Leicestershire Special Educational Needs has seen 12.7% growth in EHCP numbers (above the national average) compared to this time last year. However, less referrals are entering the system, but the net result is that cost pressures are increasing. Leicestershire currently has 393 Independent placements which is 27 above target. Given the levels of growth and underdelivering on forecasted savings around independent placements and annual reviews, the financial outlook has worsened. Uncertainty remains on the impact of Covid-19 and central government Special Educational Needs review is still pending.	 Expected to remain high/red
CR	1.7	If the Council is not compliant with the HRMC IR35 regulations regarding the employment of self-employed personnel, then there is a risk of large financial penalties	20 15/L4	No change to previously reported position.	 Expected to move to Medium/Amber




Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
C&FS	1.9	If the immigration status of unaccompanied asylum-seeking children (UASC) who arrive in the County is not resolved, then the Council will have to meet additional long-term funding in relation to its housing and care duties.	16 14/L4	A new voluntary rota has now been introduced that will manage the number of children who are allocated to a region and local authority to place and provide care. The Home Office new funding arrangements mean that there is now no funding gap for UASC age 0-17 and the UASC care leaver funding has been increased. It is too early however to fully understand how the new rota and funding will fully mitigate the risk.	 Expected to move to Medium/Amber
CE	1.10	The Council is unable to meet the financial investment required to deliver infrastructure in support of housing development committed in districts Local Plans and that where this contribution can be recouped through s106 agreements secured by District Councils, the funding doesn't meet the full cost and is secured long after the commitment is made.	25 15/L5	The scale of the financial risk to the Council associated with the delivery of growth is significant. Internal governance is in place to manage this risk and additional staff resources have been allocated to strengthen collaboration with district councils where possible. Leicestershire County Council has proposed an Infrastructure Policy that would formalise a consistent, shared response to the management of this risk with district councils.	 Expected to remain high/red
CE	1.11	The Freeport requires designation by Government to be operational. That is dependent on approval of the business case. The outline case has to be submitted by 10 th September 2021 and will be subject to a 'gateway review'. If designation is not achieved there will be serious reputational consequences for the East Midlands region and partners in the Freeport proposal.	16 14/L4 (New)	In Spring 2021 the Council took on the role of lead authority/ accountable body for the East Midlands Global Gateway Freeport proposal. It has worked with partners to establish a Freeport Board in line with Government guidance and has provided programme management support to the Board. The opportunity to establish a Freeport, in order to attract investment, stimulate innovation and economic growth, and create jobs, has been offered to local areas by the Government, and this East Midlands proposal has been invited to submit a detailed business case to Government later in 2021. The proposed Freeport has sites in Leicestershire (at and near East Midlands Airport) as well as in Nottinghamshire and Derbyshire. The development of a robust business case is a challenge given the complexity both of the Freeport geography (across three counties) and land ownership, and of an understanding of the measures which make a Freeport attractive (e.g. relating to tax, customs, and planning).	 Expected to move to Medium/Amber




Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
2. Health & Social Care Integration					
All	2.3	Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.	16 14/L4	<p>The Government has confirmed that universal credit advances will be included within the Breathing Space debt respite scheme 'as soon as possible'.</p> <p>The Department for Work and Pensions (DWP) is working with health assessment providers, for personal Independence Payment, to deliver audio recording service for face-to-face assessments 'as soon as practically possible'.</p> <p>The Universal Credit uplift (£20 per week) will end at the end of September 2021.</p> <p>The DWP has confirmed that it has started a phased reintroduction of claimant commitments for all employment and support allowance claimants.</p>	 Expected to remain high/red
C&FS A&C PH	2.4	If the Council and its partners do not deliver a sustainable health and social care system which results in vulnerable people not having their health and social care needs met, there is a potential that increased demand on social care services will lead to the escalation of vulnerable people's needs.	16 14/L4 (New)	<p>As part of its Health & Care Bill 2021-22, the Government is legislating to introduce Integrated Care Systems (ICS) across England from April 2022. Locally, this will mean a ICS covering Leicester, Leicestershire and Rutland (LLR). There are ongoing discussions at member and officer level with the NHS and the other two councils with social care and public health responsibilities to manage jointly the transition to an ICS which involves complex governance issues. These discussions are also providing opportunities to discuss with the NHS ways in which additional costs to the Council from NHS responsibilities affecting both children's and adults social care can be mitigated.</p> <p>Increased demand on acute and hospital services could lead to increased demand on social care services, particularly in relation to SEND and complex care. The overall risk is associated with potential lack of understanding and implementation of a system and place-based strategy to deliver prevention, population health management, promote independence and manage demand.</p>	 Expected to remain high/red
3. ICT, Information Security					
CR	3.6	If the ERP system cannot accommodate all of the Council's requirements, then it may delay implementation and	15 15/L3	<p>Continue engagement with Oracle and Evosys to reduce outstanding incidents post the system go-live.</p> <p>It is anticipated that the primary risk of business disruption and</p>	

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
		extra resources will be required to develop work arounds		<p>delays will reduce now significantly, as the key modules are now live and only risks from the other go-lives (for Nottingham City Council and External customers) remain.</p> <p>Review of the project benefits to plan delivery of those that are outstanding is underway.</p>	 Expected to move to Medium/Amber
CR	3.7	If the Council does not manage its exposure to cyber risk, then decisions and controls cannot be taken to mitigate the threat of a successful cyber-attack.	16 I4/L4	<p>A Cyber-attack simulation exercise is planned for September (Information & Technology Incident Response Team). Work is also underway to review incident response support services available from external suppliers.</p> <p>A vulnerability assessment was conducted by external security partners to assess the Council's backup technology. The report has highlighted areas for improvement – an action plan is being developed. Robust backup technology and procedures mitigate the impact of ransomware.</p> <p>A Security Roadmap has been developed that sets out a timeline of security improvements for the next 18 months.</p> <p>PSN certification submission was sent to the Cabinet Office on 25th February. Status of "Informal Assurance" provided by the Cabinet Office – indicates no concerns with the Council's submission. Eight issues remain outstanding on the action plan – work is planned to close these by the end of July.</p> <p>The number and sophistication of cyber-attacks is increasing.</p>	 Expected to remain high/red

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
4. Commissioning & Procurement					
E&T	4.2	If Arriva is successful in its concessionary travel appeals and the method of apportioning between the City and the County is changed then reimbursement costs for the total scheme could increase.	15 15/L3	Work on County Council's apportionment methodology is ongoing.	 Expected to move to Medium/ Amber
E&T	4.3	If as a result of the impacts of the coronavirus pandemic bus operators significantly change their services, then there could be substantial impacts on communities accessing essential services and lead to required intervention under our Passenger Transport Policy and Strategy	20 15/L4	<p>The Council is currently complying with the steps as set out in the Governments National Bus Strategy (NBS), which will assist in mitigating this risk.</p> <p>The first step was for the Council to confirm its commitment to entering into enhanced partnerships with bus operators. Cabinet approved this commitment at its meeting on 22nd June and the required Statutory Notice was published. Continued eligibility for government Covid -19 support funding and NBS funding will be dependent on the publishing of this notice of intent.</p> <p>Work is already underway on developing the Council's Bus Service Improvement Plan (BSIP) in continued liaison and engagement with bus operators and a wider public engagement exercise which commenced on 15th June and will run to 31st July. The BSIP will be presented to Cabinet for approval on 26th October and published at the end of October following which, the enhanced partnership formulation process will start with bus operators with a view to them being in place by 1st April 2022.</p>	 Expected to remain high/red
CE/CR	4.4	Risk of challenge and/or financial penalty due to either an actual or perceived breach of procurement guidelines.	16 14/L4	<p>A number of actions are underway:</p> <ul style="list-style-type: none"> • Guidance available via Commissioning Support Unit (CSU) for procurement activity across the Council. • Current spend control processes increase CSU involvement • Identify approach to Capital Programmes. • Manage approach in line with the new legislation "Transforming Public Procurement" 	 Expected to remain high/red

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
5. Safeguarding					
C&FS	5.1	<u>Historical:</u> If as a result of a concerted effort to explore abuse by the Independent Inquiry into Child Sexual Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified.	25 15/L5	The County Council is awaiting the IICSA report due early Autumn this year. It is anticipated there will be some findings levied at the Council within the final report.	 Expected move to Medium/ Amber
6. Category retired					
7. People					
CR (ALL)	7.1	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be impacted.	16 14/L4	No change to previously reported position.	 Expected move to Medium/ Amber

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
All	7.2	If departments are unable to promptly recruit and retain staff with the right skills and values and in the numbers required to fill the roles needed, then the required/expected level and standard of service may not be delivered, and some services will be over reliant on the use of agency staff resulting in budget overspends and lower service delivery.	16 14/L4 15 15/L3	<p><u>A&C</u> No change to previously reported position</p> <p><u>C&FS</u> C&FS continues to have some success in recruitment; however, this is generally in relation to Assessed and Supported Year in Employment and newly qualified posts which continues to create risk around the experience in the workforce.</p> <p>The Department has strengthened its offer at exit interviews, so that it can understand more around its intention to staff and link this into Senior Management Team for any learning and action.</p> <p>The work to focus on recruitment in Wigston, is continuing and leading to positives as there is now a cohort of permanent managers. However, recruitment to SEN practitioner posts seems to be out of step with the Department as a whole. More recently turnover off staff in the DCS has been identified as an issue.</p>	 Expected to move to Amber /Medium
A&C	7.3	If the Department fails to develop and maintain a stable, sustainable, and quality social care market to work with it may be unable to meet its statutory responsibilities.	16 Reduced from 20 14/L4	<p>The likelihood reduced from 5 to 4 and the overall risk score reduced from 20 to 16 but RAG rating remains Red. This is due to the following factors:</p> <ul style="list-style-type: none"> • The Department for Health and Social Care has confirmed additional funding. • Funding of additional PPE requirements beyond the end of free PPE portal entitlement is open until March 2022. 	 Expected to move to Amber /Medium
8. Business Continuity					
CE	8.1	If suppliers of critical services do not have robust business continuity plans in place, the Council may not be able to deliver services.	15 15/L3	Business continuity (BC) arrangements have been kept under review. All Departments and the Commissioning Support Unit have looked at key supplier BC arrangements in light of Covid-19.	 Expected to remain high/red

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl. changes)	Update Based on risks discussed at department's management teams during June 2021	** Direction of Travel (Residual Risk Score over the next 12 months)
9. Environment					
E&T	9.1	If the ash dieback disease causes shedding branches or falling trees, then there is a possible risk to life and disruption to the transport network	20 15/L4	Results of the 2020 surveys indicate that levels of ash dieback are higher than in previous years. The Ash Dieback Board are leading on coordinating the response for Leicestershire.	 Expected move to Medium/ Amber
E&T	9.2	If there was a major incident which results in unplanned site closure (e.g. fire) then the Council may be unable to hold or dispose of waste.	20 15/L4	The demand for all County Council waste disposal, recycling and treatment services remains higher than at pre-covid levels. The booking system is successfully managing demand at the Recycling and Household Waste Sites and avoiding disruption to service users. The waste transfer station infrastructure is still under pressure and plans are underway for the use of contingency facilities this year to maintain disposal/treatment capacity for the Districts. Preparation of the Bardon site is underway to enable construction of the Waste Transfer Station to commence imminently.	 Expected move to Medium/ Amber
E&T	9.4	If climate change impacts happen more frequently or at a greater intensity than anticipated, then there is the risk that County Council services will be negatively affected	16 14/L4	This risk will be presented to the Committee at its meeting on 23 July Climate change risk registers are being reviewed. An interim report was considered by the Environment Strategy Delivery Board in May and a final report will be presented in September. Mitigation measures are being identified as part of the Climate Change Risk Register review that will seek to the reduce impact on the Council services.	 Expected move to Medium/ Amber
10. Category retired					

Department

A&C = **Adults & Communities**
CE = **Chief Executives**
CR = **Corporate Resources**
C&FS = **Children and Family Services**

E&T = Environment and Transport
PH = Public Health
All = Consolidated risk

**The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that:

- A horizontal arrow shows that not much movement is expected in the risk.
- A downward pointing arrow shows that there is an expectation that the risk will be mitigated towards 'medium' and would likely be removed from the register.
- An upwards pointing arrow would be less likely, but possible, since it would show an already high scoring risk is likely to be greater

RISKS REMOVED SINCE JULY 2019

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
C&FS	3.7	If the quality of data in Children and Families (C&FS) Information Management System is too low to satisfy statutory requirements (e.g. data returns) this will impact upon service delivery	16	The current risk score has been downgraded from 16 to 12. - tableau reports have been embedded; and are now accessible to Team Managers and Business Support. This is led by two Heads of Service who jointly oversee quality meetings. This risk has been removed from the Corporate Risk Register, but it will continue to be monitored through the Children & Family Services Departmental Risk Register.	26 July 2019
CR	1.4	If claims relating to uninsured risks materialise or continue to increase then LCC will need to find increased payments from reserves, impacting on funds available to support services	16	The level of reserves is sufficient to reduce the current risk score from 16 to 12 and the risk will be managed and monitored at Departmental level via the Risk Register - Corporate Resources.	1 November 2019
All	3.5	If the Council fails to maintain robust records management processes to effectively manage information under its custodianship, personal data may not be processed in compliance with the Data Protection Act 1998 resulting in regulatory action and/or reputational damage.	15	Resources to address highest assessed physical record risks now being put in place (priorities agreed with Chief Officers in summer 2019). Risk levels regularly monitored by central team. Email storage / destruction approach agreed at Information Governance Board (September 2019). The current risk score has been reduced from 15 to 12 and the risk will be managed and monitored at Departmental level via the Risk Register -Corporate Resources.	1 November 2019
CR	4.1	If the Authority does not obtain the required value and level of performance from its providers and suppliers, then the cost of services will increase, and service delivery will be impacted.	15	A review of the risk has resulted in the current risk score reduced from 15 to 12 and the risk will be managed and monitored at Departmental level (Corporate Resources).	1 November 2019

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
A&C	7.3	If the department does not have a sustainable external workforce to work with it may be unable to meet its statutory responsibilities.	16	The Department has reviewed the risk and reduced the current risk score from 16 to 12. Planning and timescales for action further progressed with domiciliary care to be re-commissioned in 2021 and residential care fee increase coming into effect from 2019/20. The risk will continue to be monitored as part of the A&C Departmental Risk Register.	Removed 1 November 2019 Re-instated 31 January 2020
CR	3.2	If the Council has a GDPR breach, then there could be a risk of significant liability claims	15	Significant work has taken place to mitigate the risks around GDPR. Compliance continues to be monitored and strengthened governance arrangements are now fully implemented to monitor and identify any emerging risks. The Current Risk Score has been reduced from 15 to 12 and the risk will continue to be monitored through the Corporate Resources Departmental Register.	31 January 2020
E&T	4.2	If Arriva is successful in its concessionary travel appeal, then reimbursement costs for the total scheme could increase significantly.	15	Discussions with Arriva are ongoing. The risk will continue to be monitored as part of the E&T Departmental Risk Register.	31 January 2020
All	6.1	EU Transition – If a formal trade agreement between the UK and EU is not in place at the end of the transition period, the UK will be treated by the EU as a third country. Trade arrangements will differ, and goods will be subject to full third country controls and a variety of border checks.	16	The Assistant Chief Executive is satisfied that the risks identified in the Reasonable Worst-Case Scenario did not materialise on transition as the UK and EU reached a trade deal	29 January 2021
C&FS	10.1	If the Local Authority and its partners do not succeed in developing an inclusive culture across all schools, education providers and partner agencies (including the Parent Carer Forum), then it will be difficult to secure parental confidence in the ability of the 'whole system' to meet the needs of the large majority of children with SEND in a mainstream school context	16	The context of this risk is deemed to be covered within corporate risk 1.6 - If demand for Education Health and Care Plans continues to rise, and corrective action is not taken, there is a risk that the high needs deficit will continue to increase.	29 January 2021

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
E&T	9.3	If the Council is not able to deliver on the commitments it has made in its climate emergency declaration due to the complexity and difficulty of some of the decisions and actions that will need to be made, then this will impact on the Council's ability to fulfil its leadership role and have financial and reputational consequences.	15 I5/L3	An updated Environment Strategy and Action Plan was agreed by the Council on 8 July 2020. The Council now has an up to date statement of its environmental priorities and objectives which is aligned with its climate emergency declaration and its framework for action to achieve the commitments on the Council's own carbon emissions and against which its performance can be objectively assessed. The current risk score has been reduced from 15 to 12 and the and the risk will continue to be monitored through the E&T Dept Register.	29 January 2021
All	2.2	Impact on County Council services and MTFs of the Better Care Together (medium term) transformation plan in Leicester, Leicestershire, and Rutland (LLR), could lead to inability to deliver improved outcomes and financial sustainability	16 I4/L4	Existing risk is obsolete and has been replaced by new risks which will be monitored in via the A&C, PH Departmental Risk Registers. These new risks are currently rated Amber.	4 June 2021

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CORPORATE GOVERNANCE COMMITTEE – 23 JULY 2021

REPORT OF THE DIRECTOR OF LAW AND GOVERNANCE

ANNUAL REPORT ON THE OPERATION OF THE MEMBERS' CODE OF CONDUCT 2020/21

Purpose of Report

1. This report fulfils the requirement for the Monitoring Officer to report to the Committee on an annual basis on the operation of the Members' Code of Conduct in accordance with a decision of the Committee on 24th September 2012.

Background

2. The Members' Code of Conduct was adopted at the County Council meeting on 4th July 2012 and at the same time the Council gave this Committee responsibility for dealing with matters relating to the Code. Detailed arrangements for dealing with allegations against Members were considered by this Committee on 24th September 2012 and a procedure for dealing with allegations was agreed. These were reviewed and updated by this Committee in September 2017.

Complaints received under the Members' Code of Conduct

3. Since July 2020 there have been six complaints (relating to four members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as set out below and a comparison with the previous year is included for information:

Outcome of complaint	Number of members	
	2019/20	2020/21
Complaint withdrawn / not progressed by complainant	3 (1 complaint)	1
Complaint did not meet threshold for further investigation as set out in the 'initial test'	2	4 (2 complaints relate to one member but different events and 2 complaints relate to one member arising out of the same event)

Complaint resolved informally	1	0
Complaint considered by Member conduct panel -	0	1 (see below)
Complaints being considered at the initial stage (as at 13 July 2021)		0

There are no trends in relation to the subject matter or in relation to the members who have been the subject of a complaint except to note that:

Member Conduct Panel

4. One case was presented to the Member Conduct panel relating to a breach of confidentiality/Data Protection Act issues and a failure to show the complainant respect. The Panel resolved:
 - (a) That the early assessment report of the Deputy Monitoring Officer be noted.
 - (b) That the views of the Independent Person, Mr Grimes, be welcomed and noted.
 - (c) That the elected member's acceptance of the Data Protection/GDPR issue and their agreement to issue an apology in this regard be noted and supported.
 - (d) That no further action be taken in respect of the tone and content of the email exchange between the member and the complainant.

The Panel was of the view that the email exchange which gave rise to the complaint showed evidence that the elected member had been critical of the comments made by the complainant but the panel considered these in the context of the issue being discussed (i.e. a planning matter) which were often emotive and caused heightened tensions. The Panel unanimously agreed that the emails sent by the member concerned did not cross the threshold into showing disrespect. The Panel was of the view that the informal resolution of the Data Protection/GDPR issue through the issuing of an apology by the member was proportionate and appropriate.

5. As members will be aware, complaints alleging failure to register a Disclosable Pecuniary Interest are matters for consideration by Leicestershire Police as the Localism Act 2011 has made such failures a criminal offence. No such complaints have been received during the period under review.

Independent Persons

6. At its meeting on 12 June 2020, the Committee approved the proposal to undertake a joint recruitment process with the Leicester, Leicestershire and Rutland Combined Fire Authority for the appointment of Independent Persons

from 30 September 2020 for a term of four years.

7. During the last year at its meeting on 30 September 2020, following a recruitment exercise in which members participated, the Council appointed a panel of Independent Persons as required by the Localism Act 2011 for a period of four years and expressed thanks to the outgoing Independent Persons.

Local Government Association (LGA) Model Code of Conduct

8. In May 2019, the Committee received and commented on the report of the Committee on Standards in Public Life (CSPL) which outlined the findings of its review of local government ethical standards. One of the recommendations of the CSPL's review was that the LGA should create an updated model code of conduct, in consultation with representative bodies of councillors and officers of all tiers of local government. The LGA subsequently held a consultation regarding the new Model Code of Conduct (the Committee previously commented on the Council's draft response to the consultation) and it has now issued a revised Code. At present the guidance to accompany the Code is awaited and discussions are ongoing with the Monitoring Officers of the lower tier authorities in Leicestershire with a view to seeking commonality of code across the county council and district councils as far as possible which it is hoped will assist dual-hatted members.

It is expected that the revised Code will be subject to a further report to this Committee in the autumn to consider whether to recommend to the Council that the new model LGA code (with any local variations) be adopted as part of the Council's Constitution.

Recommendation

9. The Committee is asked to note this Report.

Equality and Human Rights Implications

10. None arising from this report.

Background papers

Guide to the Leicestershire County Council Members' Code of Conduct

Leicestershire County Council's Procedure for dealing with allegations of a breach of the Members' Code of Conduct.

Report to the Corporate Governance Committee on 24 September 2012 -
'Arrangements for dealing with Member Conduct Complaints'

<http://politics.leics.gov.uk/mgAi.aspx?ID=32133>

Report to the Corporate Governance Committee on 26 November 2012 -
'Arrangements for dealing with Member Conduct Complaints'

<http://politics.leics.gov.uk/mgAi.aspx?ID=33035>

Report to the Corporate Governance Committee on 12 June 2020 and County
Council on 30 September 2020 – 'Appointment of Independent Persons':

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6287&Ver=4>

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6041&Ver=4>

Report to the Corporate Governance Committee on 10 May 2019 – 'Ethical
Standards in Local Government'

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=5854&Ver=4>

Report to the Corporate Governance Committee on 24 July 2020 – 'LGA Model
Code of Conduct Consultation'

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6055&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

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CORPORATE GOVERNANCE COMMITTEE 23 JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

SUPPLIER CODE OF CONDUCT

Purpose of the Report

1. The purpose of this report is to advise the Corporate Governance Committee of work undertaken to refresh the Supplier Code of Conduct and to seek its support to the implementation of this refreshed Code with immediate effect.

Background

2. The Leicester, Leicestershire and Rutland (LLR) Strategic Partnership Board for Serious and Organised Crime (S&OC), of which the Council is a key member, has ownership and responsibility for overseeing the response of all partners across the area to the UK's Serious and Organised Crime Strategy.
3. In October 2018 the Council implemented a Supplier Code of Conduct as a response to an assessment using the tools developed from the Home Offices pilot programme to tackle Serious and Organised Crime S&OC. This Code emphasises the requirement that companies that do business with the Council, and their supply chains, must operate in full compliance with the law and other rules and regulations.

Development of the Supplier Code of Conduct

4. The Commissioning Support Unit of the Corporate Resources Department has developed the "Supplier Code of Conduct" (the Code) with input from all departments and specific advice from the Council's legal services section. The Code is adopted by ESPO and used with their suppliers.

Content of the Supplier Code of Conduct

5. The Code sets out principles to help suppliers to understand the standards and behaviours that are expected of them when working with the Council. This includes the principles of international conventions (e.g. United Nations Universal Declaration of Human Rights), UK specific legislation (e.g. Modern Slavery Act 2015) and County Council Policy (e.g. Receipt of Gifts and Hospitality).

6. There is nothing contained in the Code which places additional requirements on suppliers over and above those already expected through laws, rules and regulations of the countries in which they operate. These are expressed in terms of “ethical” expectations, standards and behaviours. For example, the section on “Child Labour” specifically mentions elements of the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work regarding child labour, which organisations must adhere to already in their normal course of business.
7. All Council policies and practice documents referred to in the Code have previously been ratified by the Corporate Governance Committee.

Compliance with the Supplier Code of Conduct

8. The Code was introduced in 2018, the roll out of which was audited, the audit established some improvements which have been built into the proposals for introduction of this latest refresh of the Code. A follow up audit will be undertaken in 2021/22 to ensure the improvements have been successfully implemented.
9. The Code will be introduced to suppliers in a variety of ways. Proposals include:
 - Issue of the Code through Oracle Fusion SRM Module (Supplier Portal).
 - Publication of the Code on the County Council’s website, on the “Doing Business with the Council” page.
 - The introduction in future procurements of a requirement for suppliers to indicate they can comply with the Code.
 - Contracts to contain reference to the Code of Conduct.
 - Information on the intranet to ensure staff have awareness of the code refresh.
10. Section 5 of the Code specifically requires suppliers to support the principles contained within it and to actively communicate and promote these principles in their own supply chains. Compliance with the Code will be checked within contract management mechanisms, supported by the Commissioning Support Unit, and failure to adhere to these principles will be dealt with through the contract if necessary, again supported by the Commissioning Support Unit.

Updating the Code

11. The Code will be reviewed and updated on an annual basis to ensure this remains current and fit for purpose.

Resource Implications

12. Development and the future implementation of the Code has and will continue to be undertaken within existing resources, as will the future monitoring of compliance by suppliers as part of existing contract management systems.

Equality and Human Rights Implications

13. None.

Recommendation

14. The Corporate Governance Committee is recommended to note the work undertaken to refresh the Supplier Code of Conduct attached as an appendix to this report and to support its implementation with immediate effect.

Circulation under the Local Issues Alert Procedure

15. None.

Officers to Contact

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Appendix

Supplier Code of Conduct

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Supplier Code of Conduct

Document Details:

Owner/Lead Officer: Procurement and Commissioning Support Manger, Corporate Resources Department

Date: March 2021

Review Arrangements: Next Review Date – March 2022

Supplier Code of Conduct

Leicestershire County Council (the Council) is committed to operating ethically and complying with all applicable laws and regulatory requirements, including the requirements of the Equality Act 2010. As part of this commitment the Council requires Suppliers and Companies (the Supplier/s) who do business with us to operate in full compliance with the laws, rules and regulations of the countries in which they operate and to seek similar commitments across their own supply chain.

References in this Code of Conduct to “the Council” also apply to ESPO.¹ Through Leicestershire County Council and in accordance with an agreement between the member authorities (the “Consortium Agreement”) ESPO procures services and goods which it supplies to member authorities (which include the Council) and other contracting authorities, as defined in the Public Contracts Regulations 2015.

This Supplier Code of Conduct sets out the main principles which the Council expects Suppliers to adhere to, as follows.

1. Law and Ethical Standards

The Supplier shall comply with all laws applicable to its business. The Supplier should support the principles of the following international conventions, in accordance with national law and practice:

- United Nations Global Compact;
- United Nations Universal Declaration of Human Rights;
- The European Convention on Human Rights;
- 1998 International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work

The Supplier shall also comply with the requirements of the Modern Slavery Act 2015 (UK legislation) (see section 3 – Modern Slavery).

Conflicts of interest must be avoided or managed

- Suppliers shall avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work with the Council. They should not act or take decisions in order to gain financial or other material benefits for themselves, relatives, friends and close associates, other than payment from the Council for the services they are contracted for. They shall declare any conflicts of interest and share, for agreement, with the Council how they manage the conflict to the benefit of the Council.

¹ ESPO is the trading name of a joint committee of local authorities, the county councils of Leicestershire, Lincolnshire, Cambridgeshire, Norfolk, Warwickshire, and the city council of Peterborough established under the Local Government Act 1972 (section 101 (5) and section 102) and section 9EB of the Local Government Act 2000.

Offers of gifts and hospitality should be avoided

- No gifts or hospitality shall be given or promised that could create suspicion of an intention to influence business transactions with the Council, or give the impression that individuals have been or may have been influenced in their Council duties (refer to Leicestershire County Council Policy on the Receipt of Gifts and Hospitality available on Leicestershire County Council website (<https://www.leicestershire.gov.uk/>)).

Improper payments/Bribery

- The supplier shall comply with international anti-bribery standards as stated in the United Nations' Global Compact and local anti-corruption and bribery laws including The Bribery Act 2010.
- Further information on relevant Council policy and practice can be found in the following documents, which are available on Leicestershire County Council website:
 - The Constitution (includes Financial Procedure Rules, Contract Procedure Rules², Members' Code of Conduct and Officers' Code of Conduct)
 - Anti-Fraud and Corruption Policy
 - Confidential Reporting Procedure (Whistleblowing Policy)
 - Policy on the Receipt of Gifts and Hospitality
 - Anti-Money Laundering Policy
 - Anti-Bribery Policy

Anti-Competitive Behaviour

- Suppliers shall avoid practices that may be viewed as anti-competitive, for example sharing confidential or commercially sensitive information.

Unlawful discrimination of Customers/Service users should not take place

- Suppliers should always consider the requirements of equality law (in the UK the Equality Act 2010) in their supply of goods or services to customers and service users, and ensure that goods and services are supplied without discrimination according to the law. Suppliers should ensure their staff are trained in/aware of these requirements and act accordingly.

2. Employment and Welfare Standards

We believe that suppliers should protect the human rights of their employees and treat them with dignity and respect. Suppliers are expected to provide a fair and ethical workplace which integrates appropriate employment and welfare standards practice into their business (including relevant health and safety legislation).

² It should be noted that ESPO have their own Contract Procedure Rules which are available on their website:

https://www.espo.org/Contract_Procedure_Rules

Employment is freely chosen

- There is no forced, bonded or involuntary prison labour.
- Workers are not required to lodge “deposits” or their identity papers with their employer and are free to leave their employer after reasonable notice

Freedom of association and the right to collective bargaining are respected

- Workers, without distinction, have the right to join or form trade unions of their own choosing and employers should recognise the resulting right to bargain collectively.
- The Supplier adopts an open attitude towards the activities of trade unions and their organisational activities. The Supplier is not involved in the practice of blacklisting, contrary to the Employment Relations Act 1999 (Blacklists) Regulations 2010
- Workers’ representatives are not discriminated against and have access to carry out their respective functions in the workplace.
- Where the right to freedom of association and collective bargaining is restricted under law, the Supplier facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.

Working conditions are safe and hygienic and occupational health and safety is promoted and maintained

- A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the working environment.
- Workers shall receive regular and recorded health and safety training, and such training shall be repeated for new or reassigned workers.
- Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers.
- The Supplier shall assign responsibility for health and safety to a senior management representative.
- The Supplier complies with applicable occupational health and safety regulations and good practice to provide a work environment that is conducive to the good health of employees and prevents accidents and injury to both employees and others.

Child labour shall not be used

- There shall be no recruitment of child labour – the Supplier will comply with laws and regulations related to minimum working age. No employee of any age, including apprentices or vocational students, may be employed in breach of local regulations governing the minimum age of work or the compulsory age for schooling, consistent with ILO Minimum Age Convention No. 138.

<i>Child labour shall not be used (Continued)</i>	<ul style="list-style-type: none"> • Policies and programmes developed by the Supplier regarding child labour shall conform to the provisions of the relevant ILO standards.
<i>Living wages are paid</i>	<ul style="list-style-type: none"> • Wages and benefits paid for a standard working week meet, at a minimum, national legal standards. • All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment. • Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the express permission of the worker concerned. All disciplinary measures should be recorded.
<i>Working hours are not excessive</i>	<ul style="list-style-type: none"> • Working hours shall comply with national laws and/or collective agreements. • Where overtime is worked it must comply with national laws and/or collective agreements. • Adult workers shall be entitled to either – (i) two uninterrupted rest periods each of not less than 24 hours in each 14 day period; or (ii) one uninterrupted rest period of not less than 48 hours in each such 14 day period.
<i>No discrimination is practiced</i>	<ul style="list-style-type: none"> • There shall be no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, gender identity, marital status, sexual orientation, union membership or political affiliation.
<i>Regular employment is provided</i>	<ul style="list-style-type: none"> • To every extent possible work performed shall be on the basis of recognised employment relationship established through national law and practice. • Obligations to employees under labour or social security laws and regulations arising from regular employment relationship shall not be avoided through the excessive use of labour only contracting, sub-contracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed term contracts of employment.
<i>No harsh or inhumane treatment is allowed</i>	<ul style="list-style-type: none"> • Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

3. Modern Slavery

Leicestershire County Council is committed to better understand our supply chains and working towards greater transparency and responsibility towards people working in them in accordance with our policy of observing the spirit of the Modern Slavery Act 2015. Where suppliers are required to submit a Modern Slavery Statement (i.e. have an annual turnover of £36m or more) they should do so.

Suppliers are required to observe the spirit of the Modern Slavery Act 2015

- Suppliers shall ensure they are not directly engaged in slavery, servitude, forced or compulsory labour or human trafficking.
- Suppliers shall take reasonable and proportionate steps, having regard to the nature of their business, to identify potential high and medium risks of slavery, servitude, forced and compulsory labour or human trafficking in their supply chains. To the extent it is commercially practicable suppliers should use their buying power to influence their suppliers from such prohibited activities.
- Suppliers shall be prepared to provide to the Council names and geographical locations of their own suppliers, to the extent that these are the source of products supplied to the Council.
- Suppliers shall permit any of the Council's staff, consultants acting on its behalf or similar, to inspect the supplier's premises and interact with workers without notice at any reasonable time.

4. Sustainability, Environment & Social Responsibility

The Council is committed to reducing our environmental impact and net zero carbon emissions from its own operations by 2030. Suppliers are expected to consider their environmental performance and procedures to minimise any negative impact on the environment, community and natural resources. Suppliers should also be aware of their social responsibility and seek to optimise opportunities to deliver social value³ benefits to the citizens of Leicestershire.

Suppliers are expected to comply with current UK Environmental Legislation and other legislative and best practice requirements

- Suppliers shall approach sustainability as a process of continuous improvement, look to realise the positive sustainability benefits and manage the negative sustainability impacts relative to their core business activities over the lifespan of contracts with the Council.

³ In Leicestershire Social Value is defined as "The additional benefits for the public and communities of Leicestershire that arise over and above those immediately associated with directly purchased goods, works and services".

Leicestershire County Council & ESPO: Supplier Code of Conduct

Suppliers should be aware of how their activity can contribute to wider social impact for the community

- Suppliers should seek to support and contribute to the social and economic wellbeing of the communities they work in.

5. Compliance with the Supplier Code of Conduct

The Council expects Suppliers throughout the supply chain to support the principles contained in the Code of Conduct, and to actively communicate and promote the principles to their own supply chains. The Council reserves the right to request details of how Suppliers and their supply chains comply with the Supplier Code of Conduct and take action where appropriate, including termination of the business relationship and/or legal action. The Council's contract managers may visit (and/or appoint external partners to visit) the Supplier (or their sub-contractors or agents) to assess compliance with the Code.

6. Review of Code of Conduct

Responsible Officer: Procurement & Commissioning Support Manager, Corporate Resources Department

Review date: March 2022 (or as required in the event of changes in legislation etc.)

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CORPORATE GOVERNANCE COMMITTEE – 23 JULY 2021

JOINT REPORT OF THE DIRECTOR OF CORPORATE RESOURCES AND THE CHIEF EXECUTIVE

DRAFT ANNUAL GOVERNANCE STATEMENT - 2020/21

Purpose of the Report

1. The purpose of this report is to:
 - (a) Outline the background and approach taken to produce the County Council's 2020/21 draft Annual Governance Statement (AGS);
 - (b) Present the draft AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council.

Background

2. Regulations 6 (1) (a) and (b) of the Accounts and Audit Regulations 2015 (the Regulations) require each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control.
3. Due to the impact of coronavirus (COVID -19) on Local Authorities, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 amended the 2015 Regulations to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1st April 2020.

The Regulations stipulate that the County Council publishes its Statement of Accounts and draft AGS by no later than 31 August 2021. Therefore, the draft AGS will be considered by this Committee and published with the Draft Statement of Accounts in July 2021. The final AGS will accompany the published accounts which is scheduled for November 2021.

4. 'Delivering Good Governance in Local Government: Framework' (the Framework), sets the standard for local authority governance in the UK. The preparation and publication of an AGS in accordance with the Framework fulfils the statutory requirement.

5. The AGS is an important requirement which enhances public reporting of governance matters. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year.
6. The AGS encompasses the governance systems applied in both the Authority itself, and any significant group entities e.g. ESPO, East Midlands Shared Services (EMSS) during the financial year being reported. Commercial and collaborative arrangements that the Council is involved in are also reported to provide a fuller picture including assurances.
7. To ensure that the AGS reasonably reflects the Committee's knowledge and experience of the Council's governance and control framework and that the conclusions and future challenges are appropriate, The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance requires high level input from the Committee into the AGS. The draft 2020/21 AGS is attached at Appendix A and any comments by the Committee will be duly considered and incorporated as appropriate.
8. The draft AGS statement has already been considered by a senior officer group comprising of:
 - Director of Law & Governance (the Council's Statutory Monitoring Officer)
 - Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
 - Head of Democratic Services
 - Assistant Chief Executive
 - Assistant Director – Finance, Strategic Property & Commissioning
 - Assistant Director – Corporate Services
 - Head of Internal Audit & Assurance Service
 - Members of the Corporate Management Team.

Approach

9. The review of the effectiveness of the County Council's system of internal control and overall corporate governance arrangements requires the sources of assurance, which the Council relies on, to be brought together and reviewed, from both a departmental and corporate view.
10. The Public Sector Internal Audit Standards (PSIAS) allows the Head of Internal Audit and Assurance Service to assist management in drafting the AGS. The process followed as explained below, has not changed significantly from the previous year.
11. The revised CIPFA/SOLACE Framework requires local authorities to review arrangements against their Local Code of Corporate Governance. To ensure it is consistent with the seven core principles of the Framework, the Council's Local Code was revised and updated during 2019 and was

approved by the Council at its meeting on 25 September 2019. The Local Code will be reviewed and updated over the summer of 2021.

12. To ensure the AGS represents an accurate picture of the governance arrangements for the whole Council, each Director was required to complete a 'self-assessment' designed to provide details of the measures in place (systems, process, documents etc.) within their departments during the financial year 2020/21, to ensure conformance (or otherwise) to the Framework. The self-assessment also allowed for the recognition and recording of areas where developments are required.
13. The departmental self-assessments required a corresponding score to be given reflecting the department's positions regarding practice, standards and quality. This is a gauge of effectiveness. The application of a more quantitative approach to assessing compliance against the principles contained in the Framework allows the Committee and public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the seven core principles and best practice.
14. A number of Corporate Assurance Statements were also completed to gain an overall organisational perspective of processes in place as described by the seven core principles. These statements also allowed for the recognition and recording of areas where developments were required.
15. The completed statements were analysed along with various other sources of evidence to determine whether there are any significant governance issues that should be reported in the AGS. Other sources include:
 - a. Reports provided by internal and external audit and other assurance sources and the implications of these reports for the overall governance of the Council.
 - b. The Head of Internal Audit Service's annual opinion on the overall adequacy and effectiveness of the Authority's control environment (its framework of governance, risk management and internal control arrangements).
 - c. Evaluation of any negative media articles.
16. The AGS assesses governance arrangements in place during 2020/21, and since the self-assessments were completed in early April 2021, the whole of the year was affected by the COVID-19 national emergency. The impact of COVID-19 on the Council is fully detailed in Section 7 (Appendix A) of the draft AGS.

CIPFA outlined in a briefing (February 2021) that authorities also need to ensure that the AGS is current at the time of publication, so it is essential that the AGS also reflects the impact of COVID-19 on governance. This could also include the process of reviewing lessons learned from its response which could be considered as a suitable area for inclusion as one of the organisation's significant governance issues – refer to paragraph 18 (Appendix A) for more details.

Outcome of the 2020/21 review of the Governance Framework

17. The County Council has defined 'Significant Governance Issues' as those that:

- a. Seriously prejudice or prevent achievement of a principal objective of the authority;
- b. Have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in the significant diversion of resources from another aspect of the business;
- c. Have led to a material impact on the accounts;
- d. The Corporate Governance Committee advises should be considered as a significant issue for reporting in the AGS;
- e. The Head of Internal Audit Service reports on as significant in the annual opinion on the internal control environment;
- f. Have attracted significant public interest or have seriously damaged the reputation of the organisation;
- g. Have resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer;
- h. The issue has resulted in a legal breach or prompts intervention from a regulator.

18. The AGS for the previous financial year (2019/20) contained details of two significant governance issues. These were:

- COVID-19 impacts on the MTFS - affected by definitions a) and b) of paragraph 17 above.
- Special educational needs and disability (SEND) complaints arising out of delays in issuing Education, Health and Care Plans (EHCPs) – affected by definition h) of paragraph 17 above.

Section 8 of Appendix A provides details of the progress made during 2020/21 to address the issues.

19. During its review of the 2020/21 draft AGS; the Senior Officer Group determined that **there were no significant governance issues that require reporting in 2020/21** – refer to section 9 of Appendix A for more details.

The self-assessment process has confirmed that there is strong evidence of good governance. Nevertheless, further improvements to governance are planned in relation to the key challenges facing the Council in 2021/22 and throughout the timespan of the current MTFS. The Senior Officer Group has determined that progress on the development areas identified against each Principle of the Framework (refer to Appendix A page 22 onwards for developments planned for 2021-22) should be the responsibility of designated Directors and Heads of Service during 2021/22.

Follow up on progressing the implementation of 2019/20 developments was undertaken in June 2021 by the Senior Officer Group. Any 2019/20 developments that were not carried forward to 2021/22 or reported through the Corporate Risk Register process will continue to be monitored. Some of the developments are longer term in nature and therefore the time span is beyond the 12 months and the impact of COVID-19 has delayed implementation.

Similarly, the Group determined that those areas listed in the Future Challenges - Section 10 (Appendix A) will be subject to scrutiny through existing reporting channels.

20. The Code of Practice on Local Authority Accounting in the UK 2020/21 (the Code) states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Therefore, in the event of the above occurring, the AGS presented as in the Appendix would change at the time of its final publication.
21. Approval and ownership of the AGS has been reflected at corporate level and the statement will be signed on behalf of the Council by the Chief Executive and Leader of the Council and published on the County Council's website.

CIPFA Guide – Matters for the Audit Committee to consider when assessing the AGS

22. Members may wish to consider the guide attached at Appendix B provided by CIPFA (pages 5-6) to help their role in reviewing the Council's Draft AGS to be presented on 23 July.

Recommendations

23. The Committee is requested to:
- a. Consider the draft AGS (Appendix A) and indicate whether it is consistent with the Committee's own perspective on internal control within the Authority.
 - b. Note that there are no significant governance issues in the draft AGS 2020/21.
 - c. Note that the AGS, which may be subject to such changes as are required by the Code of Practice on Local Authority Accounting, has been prepared in accordance with best practice.
 - d. Consider the CIPFA Guide – Matters for the Audit Committee to consider when assessing the AGS when reviewing the Council's Draft AGS for 2020/21.

Resource Implications

24. None.

Equal Opportunities Implications

25. None.

Background Papers

CIPFA/SOLACE: Delivering Good Governance in Local Government: Framework (2016, 2012 and 2007)

Circulation Under the Local Issues Alert procedure

None

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List of Appendices

Appendix A – Draft Annual Governance Statement 2020/21

Appendix B – CIPFA Guide: Matters for the Audit Committee to consider when assessing the AGS



DRAFT - Annual Governance Statement (AGS) 2020-21

1. INTRODUCTION

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation and government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently and effectively. In discharging this responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs.

Regulations 6 (1)(a) and (b) of the Accounts and Audit Regulations 2015 require each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS in accordance with the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016) fulfils the statutory requirement of the Accounts and Audit Regulations. The AGS encompasses the governance system that applied in both the Authority and any significant group entities (e.g. ESPO, EMSS) during the financial year being reported.

Due to the impact of coronavirus (COVID -19) on Local Authorities, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 amended the 2015 Regulations to extend the deadlines for relevant authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial year beginning on 1st April 2020. The draft AGS 2020/21 was published with the draft Statement of Accounts in July 2021.

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The Council's governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (the Framework)', sets the standard for local authority governance in the UK.

The Framework helps local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3. LEICESTERSHIRE VISION AND OUTCOMES

In December 2017, the Council agreed a new four-year Strategic Plan and Outcomes Framework to run from April 2018 to March 2022. The Council developed the Plan by focussing on what would make life better for people in Leicestershire and the Plan included the following five priority outcome themes:

Our Vision: Working together for the benefit of everyone				
Strong Economy	Wellbeing and Opportunity	Keeping People Safe	Great Communities	Affordable and Quality Homes
Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential.	The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing.	People in Leicestershire are safe and protected from harm	Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area.	Leicestershire has a choice of quality homes that people can afford.

The five priority outcome themes encompassed a number of supporting outcomes which together formed the overall Single Outcomes Framework which set priorities for the Authority and enabled more effective deployment and targeting of its resources. The Annual Delivery Report and Performance Compendium (published November 2020) included an assessment of progress in relation to the Outcomes Framework.: <https://www.leicestershire.gov.uk/about-the-council/how-the-council-works/leader-and-cabinet/council-performance>

The Annual Delivery Report outlined the delivery, the impact of Covid-19 on services and Council operations, progress with implementing agreed plans and strategies, and achievements over the previous 12 months. The Performance Compendium outlined the inequality in funding and the Council's Fair Funding proposals, transformation requirements and national and local service pressures, as well as detailed comparative performance metrics.

The Council's revised Strategic Plan was approved in May 2020. The revision is an interim measure to reflect the Council's resolution (May 2019) to declare a climate emergency. A revised vision for the Council, outcomes and strategies to define the Council's role in meeting the emerging challenges post-Covid-19 is being developed and will be consulted on later in 2021 and early 2022 to form the basis for the new Strategic Plan 2022 to 2026.

A separate Recovery Strategy was approved by Members and has two key aims; to aid short-term recovery of services following lockdown, and also to support services to move to better ways of working and new efficient models of delivery in the long term. As part of the Recovery Strategy, Members noted that given the significant impact of COVID-19 there would need to be a review of the Council's Medium-Term Financial Strategy as well as preparing the new Strategic Plan 2022-26.

4. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how the Council's management arrangements are set up to meet the principles of good governance and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any developments required. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level.

It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The revised CIPFA/SOLACE Framework requires local authorities to review arrangements against their Local Code of Corporate Governance. To ensure it is consistent with the seven core principles of the Framework, the Council's Local Code was revised and updated during 2019 and was approved by the Council at its meeting on 25 September 2019. The Local Code will be reviewed and updated over the summer of 2021.

<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2020/1/16/local-code-of-corporate-governance.pdf>

The principles contained in the Framework have been applied to the preparation of the AGS for the financial year 2020/21.

The 2020/21 AGS has been constructed by undertaking: -

- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance
- Reviewing the Council's response to (and recovery from) the COVID-19 virus

5. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

There is a statutory requirement in England, for a local authority to ensure that it has a sound system of internal control which: -

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives.
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

The authority must (each financial year): -

- (a) conduct a review of the effectiveness of the system of internal control, and,
- (b) prepare an annual governance statement.

To ensure the 2020/21 AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure conformance (or otherwise) with the seven core principles of the Framework. **The AGS assesses governance in place during 2020/21, the Council's self-assessments were completed in April 2021 and therefore the whole of the year was affected by the COVID-19 national emergency.**

The self-assessments contained a set of conformance statements under each core principle, which required a corresponding score of 1, 2 or 3 to be recorded, based on the criteria – Refer to the AGS Appendix from page 22 onwards.

The application of a quantitative approach to assessing conformance against the Framework allows the Corporate Management Team, Members and the public at large to obtain assurance that the Council operates within an adequate governance framework, thus complying with the seven core principles and best practice. In addition to the Directors' self-assessments, senior officers assessed arrangements for managing matters that apply across all departments. Whilst the self - assessments identified many sources of assurance and were transparent in reporting areas for action, a table in Appendix (page 22 onwards) includes key areas where further development is deemed necessary.

A senior officers group meets to review the compilation of the AGS. The group comprises

- Director of Law & Governance (the Council's Statutory Monitoring Officer)
- Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
- Head of Democratic Services
- Assistant Chief Executive
- Assistant Director – Assistant Director Finance, Strategic Property & Commissioning
- Assistant Director – Corporate Services
- Head of Internal Audit & Assurance Service

The group has determined that progressing areas identified for development, should be the responsibility of designated Directors and Heads of Service during 2021/22. Also, a review of progressing the implementation of previous years planned developments was undertaken. Any previous year's developments that were not carried forward into 2020/21 or reported through the Corporate Risk Register process will continue to be monitored.

6. OTHER FORMS OF ASSURANCE

The Framework provides examples of documents, systems and processes that an authority should have in place. Using this guidance, the Council can provide assurance that it has effective governance arrangements. The Council has an approved Local Code of Corporate Governance and this provides examples of good governance in practice.

The Control Environment of Leicestershire County Council

The Council's Constitution includes Finance and Contract Procedure Rules and Schemes of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council.

Internal Audit Service

The Council's Head of Internal Audit Service (HoIAS) ensures that internal audit arrangements conform to the requirements of the Public Sector Internal Audit Standards (the PSIAS) revised in 2017 and the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019).

The HoIAS works with the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service (IAS) so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the Council's control environment.

There is an Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity. The Charter allows the HoIAS to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any reviews to be overseen by someone outside of the internal audit activity. An independent risk management maturity health check was undertaken during the autumn of 2018 and good progress was made during 2019/20 and 2020/21 against the recommendations contained in the action plan. The next review is planned for December 2021.

To meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. its framework of governance, risk management and control, the HoIAS usually arranges an annual risk-based plan of audits. Prior to the Coronavirus pandemic, work had begun to draft an Internal Audit Plan for 2020/21. However, the impact of the crisis on all Council services quickly halted the finalisation of the Plan. Some internal audit staff were redeployed to other Council services and focus was shifted to providing assurances on redeployment of IT kit, cyber security arrangements/monitoring, security of agile working, access to systems where staff are being redeployed and capacity management. The IAS was involved in reviewing and advising on controls in alternative service delivery models and schemes such as the work from home allowance and was very active in counter fraud work and grant certification. Audits relating to covid (system changes, grants etc) accounted for a substantial amount of audit work in 2020/21.

IAS reports often contain recommendations for improvements. The number, type and importance of recommendations determines how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's the control environment. The HoIAS presented his annual report to Corporate Governance Committee on 4 June 2021 and his opinion read: -

The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify Covid-19 grants was considerably higher than in previous years. However, no significant governance, risk management or internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

The HoIAS' views on the Council's responses to the coronavirus during the year are also detailed.

<http://politics.leics.gov.uk/documents/s161469/Annex%201%20-%20HoIAS%20annual%20opinion%202020-21.pdf>

Risk Management

The Corporate Governance Committee has a responsibility to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid decision making relating to the development of services and the transformation of the wider organisation. Regular reports and presentations on specific strategic and corporate risks to the Council are provided to the Corporate Governance Committee.

The Council's Risk Management Policy and Strategy (which provide the framework within which risks can be managed) were reviewed, revised, and approved by Cabinet in February 2021.

As the COVID-19 response continued, the Council progressed with its plans to recover and rebuild services, towards a 'new normal'. During the earlier part of 2020/21 the existing risk management arrangements were aligned to the interim recovery planning principles. Normal annual service planning processes (ensuring that risks attaining to new key objectives and priorities are identified and evaluated) resumed in January 2021.

Overview and Scrutiny

The cross-party overview and scrutiny function monitors the County Council's financial performance and performance against targets in the Strategic Plan and other related plans on a regular basis.

The key areas of activity undertaken by the Scrutiny Commission during the year included: are -

- County Council Revised Strategic Plan 2018-2022
- Revised Environment Strategy and Action Plan
- Leicester and Leicestershire Enterprise Partnership Economic Recovery Strategy
- Coronavirus (Covid-19) Impact and Response of the Council (Recovery and Financial Impact)
- Tourism (Place Marketing) in Leicester and Leicestershire
- Air Quality and Health Joint Action Plan
- Draft Leicester City Local Plan 2020 to 2036
- Medium Term Financial Strategy
- Planning for the Future White Paper
- East Midlands Development Corporation "Interim Vehicle (DEVCO)" and Freeport Proposals
- Supporting Economic Recovery in Leicestershire
- Strategic Property Energy Strategy 2020-2030

The challenge of overview and scrutiny has always been crucial in supporting the delivery of high quality services. This work has continued throughout 2020/21 despite difficulties arising from the pandemic.

The introduction of new, temporary legislation enabled councils to hold meetings remotely. Therefore, since April 2020 all scrutiny meetings have been held virtually and webcast live. This has allowed the public to still engage in the process whilst following government advice to stay at home. It has also ensured all critical decisions on the delivery of Council services have continued to be made in a way that is both transparent and accessible to the public with Scrutiny able to play its key role in that process.

Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance.

With regard to the promotion and maintenance of high standards of conduct by members and co-opted members within the County Council – decisions and minutes are available on the intranet. The Monitoring Officer submits an annual report to the Corporate Governance Committee on the operation of the Members' Code of Conduct and arrangements for dealing with complaints.

Since July 2019 there have been six complaints (relating to five members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as set out below:

- 3 complaints were withdrawn /not progressed by the complainant,
- 1 complaint was resolved informally,
- 2 complaints - both were outside of the scope of the code of conduct

During 2020/21 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The table below provides summary information of other key business considered by this Committee during 2020/21 to support the above.

- Quarterly Risk Management Updates and the Risk Management Policy & Strategy
- Informing the External Audit Risk Assessment External Audit Plan (2019/20), Statement of Accounts, Pension Fund Accounts and Annual Governance Statement 2019/20
- Quarterly Treasury Management updates and Annual Treasury Management Report 2019/20. Treasury Management Strategy Statement and Annual Investment Strategy 2021/22
- Internal Audit Service – quarterly progress reports including status of High Importance recommendations; Annual Report, including opinion on the control environment, conformance to PSIAS and Quality Assurance Improvement Programme
- Government driven developments in local (external) audit arrangements and update reports
- CIPFA Financial Management Code - 2021
- Local Government Association (LGA) Model Code of Conduct Consultation
- National Audit Office – Guide for Audit and Risk Committee on Financial Reporting and Management during COVID-19 and accompanying update report
- Process for Removal of Local Authority Nominated Governors
- Appointment of Independent Persons
- Annual Reports:
 - Annual Report on the Operation of the Members' Code of Conduct 2019/20
 - Local Government and Social Care Ombudsman Annual Review 2019-20 and Corporate Complaint Handling and Freedom of Information Requests
 - Resilience and Business Continuity Update
 - Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016

The Chief Financial Officer (CFO)

The Director of Corporate Resources undertakes the statutory role of the Chief Financial Officer (CFO) for the Council. The CFO conforms to the governance requirements and core responsibilities of two CIPFA Statements on the Role of the Chief Financial Officer; in Local Government (2016) and in the Local Government Pension Scheme (2014). The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long-term implications, opportunities and risks, are fully considered and in alignment with the MTFs and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

The 2020-24 MTFs was balanced for 2020/21 and 2021/22, with a gap by 2023/24 of £39m. The additional pressures from Covid-19 have affected the 2020/21 budget but government support and local actions have allowed the position to be managed and a balanced outturn delivered. However, over the medium term the position is only manageable by additional savings and increases in Council Tax. This is a particularly difficult situation for a low-funded authority such as Leicestershire as room for further savings is limited. However, providing a multi-year approach is taken and decisions continue to be made, accounting for the financial context is expected to be manageable.

More detail is provided in the Narrative Report section of the Council's Financial Statements.

The Monitoring Officer

The Director of Law & Governance undertakes the statutory role of Monitoring Officer (MO) for the Council. The MO has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the MO any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,
- ensuring that decisions taken are in accordance with the Council's budget and its Policy Framework,
- providing advice on the scope of powers and authority to take decisions

In discharging this role, the MO is supported by the Deputy Monitoring Officer and officers within the Legal and Democratic Services Teams.

Senior Information Risk Owner

The Assistant Director - Corporate Services undertakes the role of Senior Information Risk Owner (SIRO) for the Council. The SIRO takes overall ownership of the Council's approach to handling information risk. Sound governance is in place, with regular update and exception reports to the Corporate Management Team. The responsibilities of a SIRO include:

- owning the Council's policies, procedures and processes around information risk, ensuring they are implemented consistently across the Council.
- ensuring compliance with all other policies and procedures relating to information and data.
- acting as a champion on information risk and report to Chief Officers on the effectiveness of risk management.
- leading and fostering a culture that values, protects and uses information for the success of the Council and benefit of our citizens.
- ensuring that information owners understand their roles.
- ensuring that the Council has a plan to monitor and improve information and data governance.

- maintaining expertise in Data Protection and other legislation that impact on Information and Data Governance; and
- owning the Council's information incident management framework

Commercial and Collaborative Arrangements

Commercial

ESPO is constituted as a joint committee (of 6 local authorities) set up to provide a comprehensive professional purchasing service to public sector bodies. It is overseen by a Management Committee which has overall strategic responsibility for ESPO. There is also a Finance and Audit Subcommittee in place. Internal audit is undertaken by the Council's Internal Audit Service as part of the servicing agreement. Similar to the County Council, the HoIAS presents an annual report to the Management Committee. The annual report incorporates the annual internal audit opinion, which for 2020-21 was as follows:

Aside from the partial assurance rating given following the audit of credit control, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

The HoIAS also commented positively on ESPO management's response to the coronavirus. Although not required to do so an external audit is also undertaken.

ESPO Trading Ltd ESPO's power to trade is restricted to a limited number of public bodies and this market is shrinking. The establishment of a trading company allows ESPO (Trading) to trade with other organisations which are in the spirit of public bodies but not described as such in the 1970 Act – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

Eduzone was a private limited company that supplies Early Years educational products and Early Years furniture to schools, nurseries and child minders. ESPO acquired the company following the necessary due diligence in 2018. Eduzone has now be incorporated into ESPO trading Limited.

The **Corporate Asset Investment Fund Strategy** guides the Council's investments in assets not directly used for the delivery of its services, but which contribute to the outcomes of the Council's Strategic Plan. The Strategy requires reporting to various member bodies. Reporting on the financial performance is included in the budget monitoring reports, on a quarterly basis. Due to the potential for significant and long lasting impacts on the Real Estate market from the Covid-19 pandemic and the UK's exit from the EU an independent review of the strategy was undertaken by Hymans Robertson, a firm of investment consultants. The review was undertaken alongside the annual strategy refresh, the most recent iteration was approved by County Council in February 2021.

The Council also has a trading arm **Leicestershire Traded Services (LTS)**, which sits within the Corporate Resources Department. Its activities are overseen by an Officer Board. The quarterly financial and performance reports include the performance of the LTS as part of the Corporate Resources Department and these reports are considered by various member bodies.

The Covid-19 pandemic has had an adverse impact on ESPO and its associated companies. The ESPO Management Committee has been informed of the reduced surplus on trading. Similarly, the closure of schools during the pandemic has significantly reduced the assumed income from Traded Services and has required an adjustment to the MTFs.

Collaborative

East Midlands Shared Service (EMSS) EMSS is constituted under Joint Committee arrangements to process payroll/HR and accounts payable and accounts receivable transactions for Leicestershire County Council and Nottingham City Council. The internal audit of EMSS is undertaken by Nottingham City Council.

On the basis of audit work undertaken during the 2020-21 financial year, covering audits of payroll, accounts receivable and accounts payable, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a “**significant**” level of assurance could be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered.

Local Government Pension Scheme (LGPS) - Central Pool.

The LGPS Central pooled investment arrangements became operational on 1 April 2018. A range of collaborative governance vehicles has been established.

The Council is joint owner of LGPS Central Limited which manages the pooled assets of nine Midlands-based local government pension schemes, including Leicestershire. LGPS Central Limited is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. It has combined assets of approximately £50bn which represents the assets of over 2,000 employing bodies which help to pay for the costs of pensions when they became payable.

The Company aims to use the combined buying power of its Partner Funds to reduce costs, improve investment returns and widen the range of available asset classes for investment for the benefit of local government pensioners, employees and employers.

Member representatives of each of the funds sit on the LGPS Central Joint Committee which provides oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS central business case and to deal with common investor issues. The joint committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The joint committee does not have delegated authority to make binding decisions on behalf of the participating councils.

An update was provided to the Council’s Local Pension Board on work completed during 2020/21. This included an update on audits in relation to LGPS. The LGPS Central Limited AAF Internal Controls Report for the period 1 April to 31 December 2020, was received. The report was unqualified as was the report for the previous quarter, i.e. 1 January to 31 March 2020. Whilst ten exceptions had been identified, LGPS staff confirmed that they were satisfied that no investors were adversely affected, nor any information incorrectly reported.

In addition to this, a bridging letter for the period 1 January to 31 March 2021 was also provided, giving further assurance on the control environment during the quarter.

As part of the four-year internal audit plan of work agreed by the Internal Audit Working Group (IAWG), Shropshire Council Audit Services completed a review of the governance of the Pool. This work included follow up of the progress made on implementing the recommendations from the previous audit. The audit opinion given was ‘Good’ and confirmed that the system of control in place, to address relevant risks, were being applied consistently.

A second internal audit due to be completed by LCCIAS as part of the agreed plan of work during 2020/21 was to review investment arrangements. This audit was scheduled in the final quarter of the year, i.e. February 2021, and completion had been delayed, partly due to Covid-19, and has resulted in significant delays in receiving information required from LGPS staff. However, the majority of the work has now been completed, and no major issues have been highlighted. The remaining work outstanding is unlikely to give rise to any significant concerns.

APPENDIX A

An update was also provided to the Council's June 2021 Local Pension Committee as part of the review of administration paper stating that Internal Audit colleagues presented their audit finding to the May 2021 Local Pension Board. The Committee was provided with the Board paper highlighting IAS work conducted in 20/21 and the plan for 21/22 as background to the Pension Committee.

Leicestershire and Rutland Sports Partnership (LRS)

The Director of Public Health represents the Council and is vice-chair of the LRS Board of non-executive directors. There are defined terms of reference which set out the governance arrangements and key tasks of the Board. Underneath the Board is a number of subgroups (drawn from the Board and co-opted others) to provide additional scrutiny of areas of the business.

One of those sub-groups in the 'business, oversight and audit' committee which oversees business planning, financial and risk reporting, and reports to the Board quarterly. The Head of Service in Public Health is a member of this board.

Leicester and Leicestershire Enterprise Partnership (LLEP)

Until June 2021 the Leader of the Council was a Director of the LLEP and a member of its Board. The Leader has been replaced as a Director by Mr P Bedford CC. In May 2021 the Ministry of Housing, Communities & Local Government (MHCLG) informed the LLEP that in 2020/21 it met the Government's expectations for governance, Strategic Impact and Delivery.

The LLEP Board underwent 'incorporation' in the last 24 months, in response to Government guidance, and carried out a Governance Review. At its meeting on 1 December 2020, the LLEP Board considered an update on progress and agreed a new Governance structure, with proposed terms of reference for new sub-Boards and groups. An outstanding Governance issue relating to the deployment of retained Enterprise Zone business rates was resolved through agreement being reached between the LLEP, its accountable body (Leicester City Council *) and the two district councils which have Enterprise Zones within their administrative boundaries.

A national review of LEPs is being undertaken by the Government and the outcome of this awaited.

*Leicester City Council is responsible for LLEP governance issues.

Leicestershire Health and Wellbeing Board

Health and Wellbeing Boards act as a forum in which key leaders from the local health and care system, work together to improve the health and wellbeing of the local population and plan how to tackle inequalities in health. This is best achieved by a range of organisations working together and as a result, the Leicestershire Health and Wellbeing Board brings together key organisations: Clinical Commissioning Groups, District Representatives, NHS England, University Hospitals of Leicester NHS Trust, Leicestershire Partnership NHS Trust, Leicestershire Police, Office of the Police and Crime Commissioner and Healthwatch to ensure patients and service users voices are heard. The Health and Wellbeing Board is chaired by the Council's cabinet lead for Health and the other Council representatives are:

- Lead Members for Adult Social Care & Children & Young People
- The Chief Executive
- The Directors of Public Health, Adults & Communities and Children & Family Services

The Health and Wellbeing Board leads and directs work to improve the health and wellbeing of the population of Leicestershire through the development of improved and integrated health and social care services by: -

- Identifying needs and priorities across Leicestershire (the Place), and publishing and refreshing the Leicestershire Joint Strategic Needs Assessment (JSNA) and Pharmaceutical Needs Assessment so that future commissioning/policy decisions and priorities are based on evidence.
- Preparing and publishing a Joint Health and Wellbeing Strategy and Plan on behalf of the County Council and its partner clinical commissioning group(s) so that work is done across the Place to meet the needs identified in the JSNA in a co-ordinated, planned and measurable way
- In conjunction with all partners, communicating and engaging with local people in how they can achieve the best possible quality of life and be supported to exercise choice and control over their personal health and wellbeing
- Approving the Better Care Fund (BCF) Plan including a pooled budget used to transform local services, so people are provided with better integrated care and support together with proposals for its implementation
- Having oversight of the use of relevant public sector resources to identify opportunities for the further integration of health and social care services within the Place.

The BCF is reported quarterly regionally and nationally via NHS England (NHSE) and the Local Government Association (LGA) via a nationally prescribed template which is approved quarterly by the Board, a process supported operationally by the Integration Executive. The annual BCF plan is also submitted via NHSE/LGA regionally and nationally and is subject to a prescribed national assurance process against a number of national conditions, metrics, and financial rules.

The publication of the 2020/21 BCF Policy Framework and Technical Guidance was delayed due to Covid-19 to allow systems to focus on the effort of dealing with the pandemic. Financial allocations for the CCG minimum contribution and the improved BCF (adult social care allocation) was published in February 2019 and therefore the financial planning for 2020/21 was completed and approved locally by the CCGs and LCC during May 2020.

The draft annual submission for the 2020/21 financial year was approved by the Health and Wellbeing Board at its January 2021 meeting with delegated authority for approval and sign-off given to the Chief Executive, following consultation with the Cabinet Lead Member for Health, for submission in May 2021.

The policy and guidance for 2021/22 has not yet been published, however financial planning by the Local Authority and CCG's is underway.

The work of the Health and Wellbeing Board is reported in an annual report and is also reported in the annual reports of Clinical Commissioning Groups (CCGs).

Local (External) Audit

The Council's local (external) auditors, Grant Thornton LLP, present the findings from their planned audit work to those charged with governance. The following extract from the external auditor's report highlights the key conclusions reached:

- **Council's Medium-Term Financial Strategy 2019-2023 (Value for Money Conclusion)**

- We carried out an initial risk assessment in January 2020 in respect of specific areas of proper arrangements using the guidance contained in AGN03 and revisited this in April 2020 in light of the emergence of Covid-19. We identified a significant risk in relation to financial resilience and communicated this risk to you in our audit plan addendum dated 29 April 2020. We have continued our review of relevant documents up to the date of giving our report and have not identified any further significant risks where we need to perform further work.
- Overall Conclusion: Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

- **Opinion on the 2019/20 Annual Statement of Accounts**

- No significant audit or accounting issues and no material deficiencies in internal control and that the Annual Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

- **Annual Audit Plan for the 2020/21 Accounts**

- The external audit plan was reported to members in June 2021. The interim audit was undertaken in early 2021 - no material issues were reported. The provision of relevant information by the Internal Audit Service will assist the external auditor to determine the planned audit approach for further testing during August and September 2021 before reporting the Audit Opinion in October 2021

The Financial Management Code

Following concerns around the financial resilience and management of local authorities, CIPFA developed the Financial Management (FM) Code for good practice in financial management.

The code is designed to support good practice in financial management and help local authorities demonstrate financial sustainability. It builds upon the underlying principles of leadership, accountability, transparency, professional standards, assurance, and sustainability. The CIPFA Financial Management Code translates the principles of good financial management into seven Financial Management Standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

In January 2021 the Council completed a self-assessment of its compliance with the requirements of the FM code. The assessment shows that the County Council meets the requirements of the Code with some small improvements required. A copy of the assessment was presented to the Corporate Governance Committee in January 2021. An internal audit of the self-assessment against the Code is scheduled for Summer 2021.

<http://cexmodgov1/documents/s159366/CIPFA%20FM%20Code.pdf>

7. THE COUNCIL'S RESPONSE TO THE CORONAVIRUS (COVID-19)

Towards the end of 2019/20, a global pandemic was declared in connection with the COVID-19 virus. Emergency responses were triggered, and lockdown measures were introduced in the UK from 23 March 2020.

The Council's planning for COVID-19 began in early February. Business continuity plans were implemented across the Council, this also included the identification of the most vulnerable service users to ensure there was capacity to support them. Non-essential work was risk assessed and put on hold to free staff capacity to enable the Council to deploy rapid responses to ensure core services were delivered and that residents and businesses continued to be supported. In addition, some areas in the county urban conurbations surrounding the city of Leicester were made subject to an extended period of local restrictions which started in July 2020. The restrictions affected businesses to require closure, limited the right of residents to stay away from home and limited gatherings. Certain new duties were placed on the council in relation to enforcement of the restrictions and these remain in force.

The Local Resilience Forum (LRF's) Covid19 Strategic Co-ordinating Group (SCG) met throughout 2020/21, initially bi-weekly then weekly. The Council's Director of Public Health chaired the SCG until a major incident was declared locally at which point chairmanship transferred to the Deputy Chief Constable and then subsequently to the Chief Executive of the CCGs. The SCG co-ordinated the response to COVID-19 across Leicester, Leicestershire, and Rutland with increasing focus on preparations for recovery (co-ordinated by a Recovery Co-ordinating Group), including economic recovery, being given a high priority alongside the response.

The Council's Crisis Management Group (CMG), chaired by the Chief Executive, meets frequently to oversee the Council's response across key issues. Initially it met daily, then three times each week and latterly weekly but with flexibility to call ad-hoc meetings when circumstances require, for example to respond to changes in guidance. CMG is supported by a corporate Resilience Planning Group (RPG) which meets regularly including dedicated meetings focused on preparing for 'recovery'. The Council has worked closely with partners on a range of challenges including the imposition and easing of lockdown measures, related enforcement activities, supply of PPE, shielding of vulnerable people, co-ordination of volunteering, test and trace, excess deaths planning, and supporting the vaccination strategy and has been chairing many of the LRF cells responding to specific issues.

Electronic updates from the Chief Executive to all members of the County Council covering service and other issues have been provided at very regular intervals initially weekly, the updates can be accessed at <https://bit.ly/3cKMPgg>

Alongside this, there have been regular member update forums conducted by remote means at which briefings on key issues have been provided and an opportunity to raise questions and concerns.

Regular information has been communicated to Members, and the public. The Council also launched a Leicestershire Communities Fund, a Business recovery Fund, a Pubs Fund and Parish Communities Fund.

Covid-19 has had and will continue to have a significant adverse effect on the economy, it is also affecting the services that the Council delivers and its finances. These financial implications will continue beyond the current financial year adding to the financial gap identified in the Medium-Term Financial Strategy. The impact is across the board, covering additional expenditure, increased project and capital costs, and reduced income levels. The Council is taking a number of measures to ensure the impact on the financial position is minimised where possible in the immediate crisis period and medium-term recovery. Even so there is no doubt that the County Council is facing a challenging financial position over a prolonged period.

As a result of the pandemic, in March 2020 all attended meetings of Members and officers ceased. Regulations made under the Coronavirus Act (2020) allowed authorities to conduct meetings and take decisions in ways other than face to face so that decisions could still be made to maintain good governance, principles of openness and accountability. By 4th April 2020 the Council was able to put in place measures to allow meetings to be held remotely. As a result of this and extending delegation to the Chief Executive (following consultation with the Leader) the decision-making process respected the principles of good governance and lawfulness. With effect from 7th May 2021, it has no longer been possible to hold council meetings remotely and steps have been taken therefore to reintroduce Covid-19 secure in-person meetings where this is required.

The constitutional arrangements for Member decisions in place before the COVID-19 lockdown proved to be robust and once the Government issued regulations regarding virtual meetings, it has been possible to conduct the vast majority of business including scrutiny and briefings for all Members.

Demands on IT systems and staff have been considerable, and most office-based staff have worked from home throughout 2020/21. A Ways of Working programme (see below) is considering longer term working arrangements likely to involve for many staff a hybrid of office-based and home-based working. Regular COVID-19 senior manager briefings continue to be provided as well as health and wellbeing support across the Council, informed by a Council wide survey which has been held several times. Work has also been carried out and continues relating to returning to the workplace (recovery) and PPE staff risk assessments.

The move to working from home for those staff who are able to has been supported by work on revised HR policies, health & safety risk assessments, guidance and support for managers regarding the leadership of remote teams, FAQs on key HR issues, a managers' charter giving advice on what employees should be able to expect from their managers, and regular clear communication.

The Council also took the decision to use the furlough scheme to maximise income, and at its peak, around 1000 staff who met the criteria were placed on furlough, with the Council continuing to top up salaries to 100%.

Three wellbeing surveys have been carried out, and targeted action plans created. The Council's wellbeing offer was a good one but needed to be re-assessed to deal with specific challenges caused by the pandemic. For example, the in-house counselling service moved from face to face, to telephone appointments.

Note: As required by the Code of Practice on Local Authority Accounting in the UK 2020/21, significant events or developments relating to the governance system that occurred between the Balance Sheet date, (31 March), and the date on which the Statement of Accounts will be signed by the responsible financial officer, will be reported in Appendix 2 if appropriate at that time.

8. ACTION TAKEN ON GOVERNANCE ISSUES REPORTED IN THE 2019/20 AGS

The Council has defined a 'significant governance issue' as one that is intended to reflect something that has happened in the year or which is currently being experienced.

Progress that has been made in dealing with the governance issues that were identified in the 2019/20 AGS are detailed below:

Ref	Issue /Area for Improvement (AGS) 2019/20	Lead Officer and Date	Progress during 2020/21
1	<p><u>Medium Term Financial Strategy (MTFS)</u></p> <p>The COVID-19 impacts on the MTFS along with the Recovery of the Council's Services over the medium and longer term have been identified as a significant governance issue.</p> <p>The Council had a robust financial position going into the COVID-19 pandemic, but the crisis will have a profound impact on the Council's financial position and the way in which services are delivered. The overall financial impact of the pandemic is difficult to quantify at present. The significant funding gap due to the pandemic will have an impact on the MTFS (2020/21 and beyond) in terms of materiality and significance:</p> <p>It is estimated that without further Government support the County Council will face a significant financial gap in the current financial year. These financial implications will continue beyond the current financial year adding to the financial gap identified in the MTFS.</p> <p>The impact is across the board covering additional expenditure, reduced income levels and savings no longer achievable. The Council has contingency measures in place assuming the current year's funding gap continues e.g. use of the General Fund which will require replenishment and reprioritisation of the capital programme.</p>	<p>Chief Executive and the Corporate Management Team</p> <p>December 2020</p>	<p><u>MTFS</u></p> <p><u>April</u> Proposal to review the Capital Programme, to free up resources for CV-19 Guidance for supplier payments to ensure resources focused on essential services</p> <p><u>May</u> Scale of challenge presented and short term solution, including use of the General Fund Greater Collection Fund monitoring introduced</p> <p><u>September</u> Spend controls introduced to reduce non-essential expenditure Outcome of the review of the Capital Programme</p> <p><u>November</u> Review of Financial Resilience</p> <p><u>December</u> Draft MTFS including plans for CV-19 contingency in 2021/22 and list of Savings under Development</p> <p><u>February</u> MTFS approved, with balanced budget for next 2-years including adequate contingency to deal with 2021/22 pressures</p>

Ref	Issue /Area for Improvement (AGS) 2019/20	Lead Officer and Date	Progress during 2020/21
	<p><u>Continued from above</u></p> <p><u>Council's Strategic Plan 2018-22</u></p> <p>The pandemic has impacted on the achievement of outcomes in a number of areas of the principal objectives of the Council's Strategic Plan 2018-22</p> <p><u>Pandemic Response</u></p> <ul style="list-style-type: none"> The pandemic Response phase has enabled the Council to quickly adopt major changes in the way in which services were managed, provided and supported, and the Council is focussing significant effort to maintain progress towards the key outcomes outlined in its Strategic Plan. These changes will not be wholly sustainable for the long term and the opportunity exists to use the lessons learned and experience gained from the Response phase to rethink the Council's approach and 'build back stronger'; progressing as a modern, effective and efficient organisation. 	<p>Chief Executive and the Corporate Management Team</p> <p>December 2020</p>	<p><u>Council's Strategic Plan</u></p> <p>The Council's Strategic Plan is a high-level document that sets the Council's broad vision and priority outcomes which are supported by key enablers such as the MTFs, Ways of Working, Equalities and Diversity Strategy, Environment Strategy, People Strategy etc. The Plan is, where relevant, being delivered through department recovery plans with service delivery having continued as far as possible throughout the pandemic.</p> <p>The Plan is currently under review to extend it to 2026 and this review will take account of the impacts of Covid19. Work on the review, and on delivering the existing Plan, was delayed by Covid19 as resources were diverted to support the Council's pandemic response. As a result of the pandemic all Outcome Advisory Boards were suspended (with the exception of the Great Communities Board which continued to support recovery planning). Alternative outcome delivery and governance arrangements to improve performance are being explored as part of the ongoing review</p> <p><u>Pandemic Response</u></p> <p><u>May</u> Initial service delivery plans put in place to support immediate reinstatement or continuation of critical Council functions and services and to highlight additional expenditure requirements for approval. Key principles around limiting additional expenditure where possible.</p> <p><u>June</u> Interim service delivery planning process developed for July to September 2020, highlighting any additional investment requirements.</p> <p><u>July</u> Ways of Working programme established through early Recovery planning that uses the lessons learned from the response phase to help ensure LCC recovers sustainability as a modern, effective and productive organisation. Key themes around workplaces, technology, people and working arrangements.</p> <p><u>September</u> Interim service delivery plans refreshed for period October 2020 to March 2021, highlighting any additional investment requirements.</p>

Ref	Issue /Area for Improvement (AGS) 2019/20	Lead Officer and Date	Progress during 2020/21
	<p><u>Continued from above</u></p> <p><u>Special educational needs and disability</u></p> <p>In common with many Local Authorities, there has been an increase in Special educational needs and disability (SEND) complaints arising out of delays in issuing Education, Health and Care Plans (EHCPs) and challenges to EHCP provision or lack of provision. A number of these have been referred to the Local Government and Social Care Ombudsman. A robust action plan is being developed with stakeholders following the Ofsted joint area SEND inspection in February 2020 to address these issues.</p>	<p>Director of Children and Family Services</p> <p>December 2020</p>	<p><u>Special educational needs and disability</u></p> <p>Since April 2020, in response to various factors, including delay in issuing good quality EHCPs, increase in demand and findings from the SEND Local Area Inspection in February 2020, the SENA service has undergone a significant restructure and has introduced a new operating model. This new structure has increased the service's capacity to case manage and improve the timeliness as well as the quality of EHCPs. The new structure and operating model went live in May 2021 and whilst all the new systems are processes are still embedding, there has been a positive start with a focus on relationships with parents and carers and child-centred planning.</p> <p>The Service still compares well with statistical neighbours (through SEN 2 data) with regards to timeliness in the issuing of EHCPs. The action plan developed (known as the Written Statement of Action- WSOA) was submitted to Ofsted and the CQC on 7th October 2020 (delayed due to) and this was deemed fit for purpose Covid-19. The Assistant Director for Education and SEND continues to meet monthly with the DfE Advisor to monitor progress against the WSOA and there have been two formal monitoring meetings with a third scheduled for July 2021. Feedback from these meetings is very positive and the DfE are satisfied with our progress and have been supporting the Local Authority with their system improvements</p>

9. SIGNIFICANT GOVERNANCE ISSUES ARISING DURING 2020/21

This Annual Governance Statement identifies that the Council has effective arrangements in place, but that we recognise the need to continuously review, adapt and develop our governance arrangements to meet the changing needs of the organisation.

Whilst the Council has identified areas to be developed (Appendix 1), it is important to recognise that the senior officer group (24 June 2021) determined that there **were no significant governance issues during 2020/21**.

10. FUTURE CHALLENGES

Significant challenges faced by the Council such as continuing funding shortfalls, driving further Health and Social Care integration, etc are detailed within the Corporate Risk Register, which is regularly presented to the Corporate Management Team and Corporate Governance Committee. Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring and maintaining the Council. Challenges continue to emerge, and key areas in particular are:

- Covid-19 – the long term health, economic and community impacts of Covid-19 will continue to be a challenge and the focus of much ‘recovery’ work. In addition, the Council and partners are likely to have to respond to future surges in Covid-19 infection rates, potentially caused by new ‘variants’, and support/ implement Government introduced or recommended measures which are put in place in response. A related challenge, but also an opportunity, is to establish new ‘ways of working’ which both respond to the pandemic but also provide a more effective, efficient, and low carbon operating model for the Council in the future. Economic recovery work will also take account of the longer-term impacts of EU Exit. This work is currently being led by the LLEP with active involvement of the Council.
- There will be some challenges in rebuilding the ESPO and Leicestershire Traded Service customer base as the pandemic restrictions are eased
- The proposed East Midlands Development Corporation and East Midlands Global Gateway Freeport both include sites within Leicestershire (at and near East Midlands Airport) as well as nearby in Nottinghamshire and Derbyshire. Both are major opportunities for the regional and local economies. The County Council has taken on the key role of lead authority and accountable body for the Freeport and will, in this capacity, but also as a key local partner, play an important role in developing the outline and full business case necessary to move the Freeport to formal designation and operational readiness.
- Financial sustainability - There is a continued uncertainty regarding government funding, that the single year spending review in 2020 did nothing to resolve. The growth in national debt is only manageable due to the low interest rate environment, but should the chancellor take the view this is not sustainable, funding reductions are likely to result. The financial challenge of funding the effects of the coronavirus pandemic are continuing into 2021/22, where minimal Government funding has been announced, and beyond due to the impact upon services of fundamental shifts in behaviours, such as bus usage. The Council also continues to face the pre Covid-19 financial challenges, most notably the increasing cost of Special Educational Needs (SEN), though significant pressures also remain in adults and children’s social care and from the continued increases in the National Living Wage. National reforms are expected to be announced this year for SEN and social care, whilst these have the potential to improve the situation previous experience has shown that there is a real risk of the opposite impact.
- The financial risks faced by the Council in delivering the infrastructure necessary to support growth in the County are significant. To address this, a Growth Unit has been established within the Council responsible for ensuring that infrastructure to support growth is effectively planned over the short, medium and long term across Leicestershire. In addition, it will ensure that risks associated with the Council’s financial contribution to large scale growth and infrastructure projects remain tightly managed by securing funding of developer contributions and from government and other external agencies. The infrastructure requirements are a key contributor in the growth in the County Council’s capital programme. A larger and more complex programme adds further financial risk, as the likelihood and impact of overspends increases. A recent example is the global supply chain issues that are restricting availability of raw materials and increase costs at a rate far higher than inflation. On large schemes this can have a compounding impact as delays increase labour costs, amendments to permissions and re-planning.

- As part of its Health & Care Bill 2021-22, the Government is legislating to introduce Integrated Care Systems (ICS) across England from April 2022. Locally, this will mean a ICS covering Leicester, Leicestershire and Rutland (LLR). There are ongoing discussions at member and officer level with the National Health Service (NHS) and the other two councils with social care and public health responsibilities to manage jointly the transition to a ICS which involves complex governance issues. These discussions are also providing opportunities to discuss with the NHS ways in which additional costs to the Council from NHS responsibilities affecting both children's and adults social care can be mitigated.
- In December 2020, the High Court ruled that Norfolk County Council had breached the rights of a woman by discriminating against her when it changed its care charging policy. The council is closely monitoring the implications of the High Court decision for its own charging policy for care and support charges. It is reviewing its public sector equality duty in respect of the decision and is currently considering a range of legal opinions on the case. Any subsequent changes to the charging policy as a result of the decision will have an impact on income received towards the cost of care and support services.
- The County Council has recently agreed a scheme which will make available a sum of £25,000 to each individual member which they can draw down to enable them to progress highway related improvement/enhancements in their division which are outside of the LCC usual funding arrangements. Work on this is at an early stage of development and such work will include the need to ensure robust mechanisms are in place to monitor and manage the arrangements so as to protect the council and individual members and provide transparency in terms of spend.

11. CERTIFICATION

The Council has been hugely impacted by the coronavirus pandemic. Nevertheless, despite the challenges, the Council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The Council's strong collaborative approach has been effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors.

The Council's Strategic Plan 2018-22 and Medium Term Strategy will continue to be reviewed and updated to assess the medium-term impacts of the pandemic on the Council's financial position.

The Council is satisfied that appropriate governance arrangements are in place and continue to be regarded as fit for purpose.

We propose over the coming year to take steps to address any matters to further enhance our governance arrangements in these challenging times. We are satisfied that these steps will address the need for any developments that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

.....
John Sinnott
Chief Executive

.....
Nicholas Rushton
Leader of the Council


AREAS FOR FURTHER DEVELOPMENT IN 2020-21

The Corporate and Departmental AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016), which required a corresponding score of 1, 2 or 3 to be recorded, based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	<p>Good</p> 	<p>Conformance against most of the areas of the benchmark is good, although there may be minor developments required but with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor, and performance is generally on track.</p>	<p>Many elements of good practice to a high standard and high quality.</p> <p>Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department</p>
2	<p>Some development areas for improvement</p> 	<p>There are some developments required against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent, and performance is variable across the department.</p>	<p>Some elements of good practice to a high standard and high quality.</p> <p>Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others.</p> <p>Proposal/Plans are in place to address perceived shortfalls</p>
3	<p>Key development and many areas for improvement</p> 	<p>Conformance against many/all areas of the benchmark is poor and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.</p>	<p>Few elements of good practice to a high standard and high quality.</p> <p>Coverage of this expectation is omitted amongst most areas.</p> <p>Proposal/Plans to address perceived shortfalls are in early stages of development</p>

The outcome of the review of the self-assessments is summarised in the table below.

Note: some actions are not included in the table as they are already reported through the Corporate Risk Register (CRR).

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)		
Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further in 2021/22 (Ongoing and New)
<p>Principle A:</p> <p>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>		<p>The level of conformance is generally good; however, the following key developments are noted:</p> <ul style="list-style-type: none"> • Further work continues with embedding the Council's revised values and behaviours within the updated Annual Performance Review scheme. This is particularly relevant in relation to current (remote) ways of working. Ongoing • A refresh of the Council's Modern Slavery Statement has been undertaken. The Supplier Code of Conduct is also being reviewed; the outcome of that review will be reported to the Corporate Governance Committee in due course. Ongoing • Delivery of Ethical training for contract managers is being developed and will be delivered. All processes, procedures and policies are being reviewed for the Procurement and Commissioning Unit with a view to roll out additional guidance and training where gaps are identified. Ongoing • The County Council Constitution contains the has adopted a Code of Conduct for Members and Co-opted Members - This has been amended over time to reflect the provisions of the Localism Act 2011 and Regulations. The LGA has issued a new draft model code following a report by the Committee on standards in public life. Guidance is awaited on the revised code and the Government is planning on launching a consultation on this and it is understood that the LGA will be undertaking a light touch review following feedback on the common Code over the Autumn. The aim is to await the guidance and outcome of these exercises and to review and amend the Code as appropriate. Ongoing • Ongoing project to develop modernised recruitment methodology and to support Managers in hard to recruit and retain areas. Ongoing • Full implementation of the Anti-Fraud & Corruption Strategy Action Plan over the course of the two-year period 2020-2022. New • Implementation of recommendations from 2020/21 assessment against the CIPFA Code of Practice on Managing the Risk of Fraud. New
<p>Principle B:</p> <p>Ensuring openness and comprehensive stakeholder engagement</p>		<p>The level of conformance is generally good.</p>

APPENDIX A

Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further in 2021/22 (Ongoing and New)
<p>Principle C.</p> <p>Defining outcomes in terms of sustainable economic, social, and environmental benefit</p>		<p>The level of conformance is good with the following areas to note:</p> <ul style="list-style-type: none"> • A light touch review of the Strategic Plan 2018-2022 was undertaken in light of the declaration on climate change and was approved by Council on 8th July 2020. A comprehensive review of the Strategic Plan and outcomes framework is underway to reflect the implications of Covid-19 and the ongoing climate change challenges. This updated Strategic Plan will be approved in Spring 2022 and cover the period up to 2026. The Strategic Plan has been augmented by the development of a complementary Strategic Change Programme and a Covid19 Recovery Strategy. Ongoing • In order to deliver defined outcomes on a sustainable basis within the resources available, the Council will need to build in better multi-year monitoring perspective for larger capital schemes to ensure that medium term implications are brought out (as opposed to in year focus) New
<p>Principle D.</p> <p>Determining the interventions necessary to optimise the achievement of the intended outcomes</p>		<ul style="list-style-type: none"> • Work is continuing to embed an outcomes-based approach following adoption of the Council's Strategic Plan 2018-22 although the pandemic led to some of this work being suspended as priority switched to responding to Covid-19. The outcomes framework is being reviewed as part of the process of updating the Strategic Plan. Ongoing • The Council's Social Value Policy is being refreshed and implementation of improved guidance and training will be developed. Ongoing
<p>Principle E.</p> <p>Developing the entity's capacity including the capability of its leadership and the individuals within it</p>		<ul style="list-style-type: none"> • Early indications are that absence levels are dropping through enforced remote working (longer term this will be supported by the implementation of the Council's workplace programme). The Council's absence levels are now at the Corporate Target of 7.5 days, but ongoing monitoring still required. Ongoing • A review of the Constitution is currently underway aimed at making the Constitution more user friendly. The outcome of the review will be reported to the Constitution and/or Corporate Governance Committee who will be asked to recommend approval to the full Council. New • Developing arrangements to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing. New
<p>Principle F.</p> <p>Managing risks and performance through robust internal control and strong public financial management</p>		<p>The level of conformance is good, however:</p> <ul style="list-style-type: none"> • Continuing work on implementation of recommendations from the Independent Risk Management Health Check- (Some actions completed (tableau dashboards, departmental action plans, but others remain. Ongoing

APPENDIX A

Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further in 2021/22 (Ongoing and New)
Principle F continued		<ul style="list-style-type: none"> • Business Intelligence (BI) Service will continue to develop dashboards to help managers to identify and resolve data quality issues. The BI Service will continue to liaise with IT and departments to ensure that validation is used as much as possible at the point of data entry. The BI Service will also continue to build dashboards to support performance management at strategic and operational levels. Ongoing • Improve contract management and monitoring of key contracts. Ongoing • Data analysis has been completed on the Council's information asset register and gaps identified. Work is underway to identify missing Information Sharing Agreements (ISA). Ongoing
<p>Principle G.</p> <p>Implementing good practices in transparency reporting and audit to deliver effective accountability</p>		<ul style="list-style-type: none"> • The Council's Contracts Register has been updated but further work is necessary to ensure compliance by all departments and met the reporting requirements under the Transparency Code. Ongoing • Whilst the external peer review of the internal audit function returned top grading, some-minor actions are closed but other areas for development will take longer to implement. Ongoing • New place -based performance dashboards to reflect the Health and Well Being (HWB) Board priority outcomes and integration deliverables - the impact of the Covid-19 pandemic and move towards a new Integrated Care Systems (ICS) has impacted on timescales for this piece of work as well as needing to align with the new Outcomes Development process for the Council following the recent election. Further work will be carried out to refine performance reporting for priority health and care outcomes linked to the new ICS governance arrangements. Work is underway through workshops and discussions with ICS colleagues on the development of the new Health and Wellbeing Strategy and related priority outcomes. A new performance framework and reporting will be implemented alongside the new strategy and outcomes. Ongoing • Work is underway to consider how to best to adopt the Governance Risk Resilience Framework (March 2021) launched by The Centre for Governance and Scrutiny New • CIPFA -Financial Management Code. The Code was issued in late 2019 with guidance notes (mid-2020). Local authorities are required to implement the Code for 2021/22. A self-assessment of the Council's compliance with the requirements of the Code has been completed in January 2021. Whilst the Council met the requirements of the Code, there are areas for further development. New • The government response to the Redmond review -Local authority financial reporting and external audit will require the Council to undertake a detailed analysis of the review recommendations and government responses to understand implications. New

Audit Committee Update

Helping audit committees to be effective

Issue 34

March 2021

The annual governance statement for 2020/21

Local auditors and internal audit working together

Regular briefing on new developments

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Introduction

Dear audit committee member,

Welcome to the latest issue of audit committee update from the CIPFA Better Governance Forum. This resource aims to support audit committee members in their role by helping to keep them up to date.

In the latest issue, we provide details of new guidance from CIPFA to local government on annual governance statements for 2020/21 that takes into account the impact of the pandemic and the implementation during the year of the CIPFA Financial Management Code. There is also a copy of a recent article on understanding the different roles and responsibilities of internal audit and external audit. We know that is an area that some audit committee members find difficult if they have had no prior experience of dealing with auditors.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent reports and guidance.

Overall, I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes,

Diana Melville

CIPFA Better Governance Forum.

Sharing this document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

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Receive our briefings directly

A link to this briefing will be included in the newsletter for subscribers to the CIPFA Better Governance Forum. It can then be shared with that organisation's audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register please visit: www.cipfa.org/Register.

Webinars and training for audit committee members in 2021 from CIPFA

Update for Police Audit Committee Members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. It is run in conjunction with CIPFA's Police and Fire Network.

- Tuesday 25 May

Introduction to the Knowledge and Skills of the Audit Committee

Provisional dates for this are:

- 22 and 23 June (morning only)
- 8 and 9 September (morning only)

Introduction to the Knowledge and Skills of the Police Audit Committee

Provisional dates for this are:

- 15 and 16 September (morning only)

Update for Local Authority Audit Committee Members

This webinar will provide an update for local authority audit committee members on the annual governance statement for 2020/21. Provisional date July 2021.

Full programme details and booking information for webinars in 2021 will be announced later in the year and will be available on the [CIPFA website](#) in due course.

In-house training, facilitation and evaluation of your audit committee

In-house training, webinars and guidance tailored to your needs are available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- Public Sector Internal Audit Standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.

For further information, email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

The annual governance statement 2020/21

What the audit committee needs to know

The requirements of the annual governance statement

Each year local government bodies must publish an annual governance statement (AGS) in accordance with the regulations issued by the appropriate government. The statement contains the results of the annual review of the effectiveness of internal control and should be in accordance with Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).

The Framework and core requirements for the AGS have not changed. Earlier issues of [Audit Committee Update](#) have addressed the audit committee role in reviewing the AGS for their organisation and highlighted good practice. CIPFA has issued additional guidance for the 2020/21 AGS in [CIPFA Bulletin 06](#).

Issues for 2020/21

The purpose of the new guidance is to consider the impact of COVID-19 on the governance arrangements of local government bodies and how this might be included in the AGS. The impact would vary between different bodies but were likely to include:

- adaptations to reflect new ways of working and emergency arrangements
- changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities
- longer-term changes to priorities, programmes, strategies and plans as a result of the impact of the pandemic on the organisation and the local area.

Over the course of 2020/21 changes would have been made as a reaction to unfolding events rather than planned in advance. For example, a decision might have been made in April 2020 to temporarily suspend or postpone the operation of an internal control, assuming that it could be resumed later in the year. Changing circumstances might have meant that the control did not in fact operate at all. So it is only with the annual review that the true impact on the governance arrangements might become clear.

Some of the impacts may not be significant or there may be alternatives that could be considered sufficient. Where there are significant issues emerging then they may need to be highlighted in the AGS and the action plan should identify the steps that will be taken to address them.

Implementation of the Financial Management Code during 2020/21

A key goal of the Financial Management (FM) Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. The FM Code is due to be fully implemented in local government bodies in 2021/22 with 2020/21 being described as a shadow year. Given the challenges to financial resilience that many local government bodies have experienced in 2020/21 progress in the implementation of the FM Code is important.

For this reason CIPFA also included with Bulletin 06 a requirement to include an assessment of compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement these should be included in the AGS action plan.

Timetables for the AGS for 2020/21

For English local government bodies the Ministry of Housing, Communities and Local Government has issued amendments to the Accounts and Audit Regulations 2015. The [Accounts and Audit \(Amendment\) Regulations 2021](#) make changes to the timetables for signature, publication and audit of the statement of accounts and AGS for 2020/21.

The exercise of public rights should take place no later than the first working day of August 2021. This means that authorities have an additional two months to prepare their financial statements and the AGS. The date for publication, which is also the target date for the completion of the external audit, is 30 September. These dates would apply to both the 2020/21 and 2021/22 statements.

All external auditors have had challenges from conducting external audits remotely and in England there have been additional challenges as a result of auditor resource pressures. As a consequence there are likely to be further difficulties experienced in 2021. Each authority will be different but if it is possible to prepare the financial statements and AGS to be ready for audit before 31 July then that might help external audit firms to stagger their workload. From the point of view of supporting better accountability CIPFA does support the principle of earlier publication but also appreciates the unusual circumstances currently being experienced.

Other aspects to consider

The guidance also recognises that some of the usual sources of assurance might not be available or may provide less assurance than in previous years. [Issue 33](#) of Audit Committee Update included an article on the CIPFA guidance about the head of internal audit (HIA) annual opinion. When reviewing the AGS the audit committee should be aware of any limitations of scope on the HIA annual opinion.

Role of the committee

From the audit committee's point of view the review of the AGS is a good opportunity to take stock of governance, risk and control arrangements. The committee should also consider their arrangements in the context of the current challenges facing the organisation and its plans and objectives for the future. This will help to ensure that arrangements can remain fit for purpose.

Key questions for the committee

Questions to discuss with officers leading the annual review of governance.

1. Has it been possible to obtain sufficient assurance to support the conclusion on the adequacy of governance arrangements?
2. What impact has the COVID-19 pandemic had on our governance arrangements?
3. What significant issues are emerging from the review?
4. What are the implications for our governance arrangements in 2021/22?

Diana Melville

Governance Advisor, CIPFA

Local auditors and internal audit working together: myths and reality

This article first appeared in [Public Finance](#).

For those of us with an audit background it is usually pretty clear what our separate roles, objectives and professional standards are. However, we are often asked by clients and audit committees: “What’s the difference between internal and external audit?”

Common assumptions are that auditors can be used interchangeably, with internal auditors helping out the external auditors on the financial statements audit or that an audit undertaken to satisfy the objectives of a financial audit means that there’s no need for an internal auditor to examine that area too. While it is essential that both sets of auditors have a positive and constructive relationship, findings and plans must always be within the framework of their respective professional standards and objectives.

The objectives of internal audit and external audit

While internal and external auditors share an interest in the outputs of each other’s work, fundamentally the two sets of auditors are trying to achieve different things.

Internal auditors provide independent assurance to help improve an organisation’s operations and accomplish its objectives. They focus on the effectiveness of governance, risk management and control arrangements, evaluate them and identify areas for improvement.

External auditors are responsible for issuing an opinion on whether the financial statements present a true and fair view. In local authorities and other areas of the public sector, the auditors also give commentary on the arrangements in place for securing value for money. External auditors have statutory powers such as the issue of public interest reports, statutory recommendations and the requirement to respond to valid objections from local electors.

Professional standards

Each profession has its own set of standards to which they must adhere, developed to meet the differing needs of the auditors.

Internal auditors in the UK public sector work to the Public Sector Internal Audit Standards (PSIAS), which encompass the mandatory elements of the Institute of Internal Auditors International Professional Framework. There are different standard setters for different parts of the public sector and in some cases for the devolved governments. CIPFA is the standard setter for internal audit in UK local government.

External auditors work to the International Standards on Auditing (ISAs) and local auditors operate under the Code of Audit Practice that defines the scope of their work in accordance with the Local Audit and Accountability Act 2014. In England the Code is set by the National Audit Office and approved by Parliament. Audit Wales, Audit Scotland and the Northern Ireland Audit Office also set codes that are approved by the devolved governments. All the national audit bodies use the principles of public audit when developing their codes, which includes a wider scope to comment on aspects of the stewardship of public funds.

Regulation and accountability

If auditors are members of a professional body, there will be responsibilities and disciplinary procedures to hold them accountable. Internal audit’s work should be overseen by the audit

committee and leadership team to whom the head of internal audit will report on performance and professional standing, known as the *Quality Assurance and Improvement Programme*.

External auditors' work is also subject to professional oversight within their firm and externally through the regulatory bodies, including in England the Financial Reporting Council and the ICAEW.

Opportunities for working collaboratively

Can internal auditors and external auditors work together or rely on each other's work? Recent developments such as the challenges in the local audit market and the Redmond Review have focused attention on this as a potential solution. It isn't as simple as that for a number of reasons.

First and foremost, internal auditors have different objectives and undertaking financial statements audit would not help internal audit to achieve those objectives.

Secondly, local auditors can only use the work of internal audit in accordance with ISA 610 (UK). This prohibits local auditors from using internal auditors to provide direct assistance on the financial statements audit.

Thirdly, internal audit teams often have their own resourcing pressures, so the recruitment and retention of skilled auditors is not just a local audit problem.

Where auditors can and should collaborate is the sharing of intelligence and knowledge. The work of internal audit can be used to inform the local auditor's understanding of the organisation, its risks and controls. The internal auditor will want to know of any control weaknesses identified as a result of the financial statements audit, and any associated operational or financial risks.

There is a greater opportunity for either joint working or for the work of internal audit to be used more directly in the area of value for money work. This area of the local audit is not directly carried out under the ISAs but will be shaped by the respective Code of Audit Practice and legislation for the relevant government of the UK. In England the new code for the 2020/21 audits will include a new VfM commentary that will discuss the audited body's arrangements for financial sustainability, governance and maintaining economy, efficiency and effectiveness. Any areas of significant weakness will be identified, and associated recommendations made for management to address.

With stretched resources and the changed dynamics in auditor relationships over the last few years, internal auditors and local auditors may not have talked as often as is desirable. The Redmond Review has recommended that local auditors should recognise that internal audit work can be a key support and the new Code of Audit Practice provides the opportunity for a reset of auditor relationships. CIPFA would like to see all auditors taking this opportunity. A subsequent step will be to engage the leadership team and audit committee so that there is clarity about such plans and how they will work in practice.

Expectations of each other

What does good practice look like? External and internal auditors should meet periodically throughout the year to discuss emerging risks and share their insights. With the new Code of Audit Practice in place for the 2020/21 year, it will be more important than ever that the two audit teams engage to discuss their work plans, emerging findings and whether these align or overlap.

While there are barriers to direct reliance on work from one side to another, both functions provide an independent assessment of, among other areas, an audited body's control environment. Audit committees have a responsibility for oversight of the implementation of actions by management in response to recommendations raised by both internal and external audit. With the increased scope of the VfM work under the revised NAO Code, it is important that messages delivered, while potentially different in focus, are giving consistent feedback to facilitate effective governance.

What would CIPFA like to see?

CIPFA would encourage internal and external auditors to more proactively engage with one another to share information, insights and areas of concern and align recommendations where possible. The audit teams should work together to help audit committee members understand the differences and synergies in their work programmes and encourage effective oversight.

CIPFA is working to produce resources on collaboration between internal and external audit in a local authority context and would welcome any feedback from practitioners of examples of the cornerstones for how effective relationships have been achieved.

Diana Melville and Ellen Millington, CIPFA

Recent developments you may need to know about

Legislation and regulations

The Local Government and Elections (Wales) Act

The [Act](#) received royal assent in January 2021. It contains provisions to amend the constitution of audit committees in councils in Wales requiring one third of the membership to be lay persons. The committee's name will change to 'governance and audit committee' and the chair must also be a lay member.

The Act also contains provisions for the review of council performance including an annual self-assessment and a panel performance assessment. The governance and audit committee will have the responsibility to review the draft performance assessment report before publication. The commencement order for these provisions has not been issued yet.

Reports, recommendations and guidance

CIPFA consultation on local government Prudential Code

Changes include adding a focus on sustainability and that borrowing for debt-for-yield investment is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.

[Prudential Code Consultation](#)

There is also new consultation on the Treasury Management Code, comprising an enhanced focus on knowledge and skills and training, including audit committee members undertaking the scrutiny of treasury management.

[Treasury Management Code consultation](#)

Governance risk and resilience

The Centre for Governance and Scrutiny and Localis have developed material to support individual council officers and councillors to play their part in understanding, and acting on, risks to good governance. It provides examples of positive and negative behaviours in the conduct of governance and can be a useful resource to support the annual review underpinning the annual governance statement. [Governance risk and resilience](#)

Financial Resilience Index

CIPFA has published a new tool showing financial resilience indicators for the financial year 2019/20. It is accessible from the CIPFA website and allows individual authorities to be compared against other authority groups. [Financial Resilience Index 2021](#)

Lessons from public interest reports

External audit firm Grant Thornton have published a report drawing lessons from three public interest reports published in the last year. It considers financial sustainability, governance and culture. In particular it includes a section on the role of the audit committee. [Lessons from recent public interest reports](#)

Rapid review reports

Audit committee members are likely to be aware of recent difficulties at the London Borough of Croydon and Nottingham City Council. Rapid review reports have been completed to identify

the causes of their problems and next steps. While these reports reflect factors specific to those councils it is useful for audit committee members to be aware of any 'lessons learned' or risks that could be relevant for their organisation.

[Rapid Review Nottingham](#)

[Rapid Review Croydon](#)

Good practice guidance: Fraud and Error

The report provides an overview of risks and good practice from the National Audit Office's Fraud and Error Audit Framework. [Good Practice: Fraud and Error](#)

Fraud and Corruption Tracker

CIPFA's latest national report estimates that for local authorities in the UK the total value of fraud identified and prevented in 2019/20 is approximately £239.4m. [Fraud and Corruption Tracker](#)

Local auditor reporting in England tool

The [National Audit Office](#) has launched a map to assist access to local audit reports for councils, police and health bodies. The map can be used to see where auditors have issued non-standard reports locally in the NHS and local government in England.

PSAA Annual Report on Audit Quality

Monitoring Report for 2020 covering the work of local auditors appointed by PSAA for the 2018/19 financial year. [Annual Audit Quality Monitoring Report 2020](#)

The NHS external audit market

A paper from the Healthcare Financial Management Association says "We have been told 'the NHS external audit market is broken' by both NHS organisations and auditors themselves."

[NHS external audit market](#)

Good practice in annual reporting February 2021

A good practice resource from the National Audit Office setting out principles for good annual reporting. It provides illustrative examples taken from public sector organisations. [Good practice in annual reports](#)

Local Government in Scotland

Audit Scotland overview reports that COVID-19 will drive large rises in costs and spending, combined with falling income. [Financial Overview 2019/20](#)

Digital progress in local government

Audit Scotland report shows that responding to COVID-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. [Digital progress in local government](#)

Local government ethical standards: progress made against best practice recommendations

The Committee on Standards in Public Life has published progress made by local authorities against best practice recommendations made in its report, Local Government Ethical Standards. This appears to show good progress being made. [Summary results](#) are available on their website.

Previous issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
CIPFA Survey on Audit Committees 2016	Issue 20
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement	Issue 22
2017 Edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

Issues from 2018	
The Audit Committee Role in Risk Management	Issue 24
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CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
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Focus on Local Audit, National Audit Office Report: Local Authority Governance	Issue 27
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CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29
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CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees	Issue 30
Compendium Edition: Reviewing the Audit Plan, Self-assessment and Improving Effectiveness, Developing an Effective Annual Governance Statement and Focus on Local Audit	Issue 31
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The head of Internal audit annual opinion for 2020/21 Update on the Redmond Review	Issue 33

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CORPORATE GOVERNANCE COMMITTEE – 23 JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**INTERNAL AUDIT PLAN AND PROGRESS REPORT AND A
FURTHER UPDATE ON DEVELOPMENTS IN LOCAL
(EXTERNAL) AUDIT ARRANGEMENTS**

Purpose of Report

1. The purpose of this report is to: -
 - a. Introduce a proposal to shorten internal audit planning cycles to six month periods.
 - b. Provide a list of planned work for the six months to the end of September 2021.
 - c. Provide a summary of work conducted during the period 15 May to 18 June 2021.
 - d. Report on progress with implementing high importance recommendations.
 - e. Provide a further update on local (external) audit arrangements from 2023 and beyond.

Background

2. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the Council's agenda and priorities. The scope of internal audit activity in the plan should be wide ranging, enabling the HoIAS at the end of the year in question, to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment.
3. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider the Internal Audit Plan, which outlines where audit focus will be in 2021-22. Internal audit is an essential component of the Council's corporate governance and assurance framework.
4. At its meeting on 4 June 2021, the HoIAS informed the Committee that Covid-19 has emphasised the need for internal auditors to be more agile in their response and more flexible in their planning. Most HoIAS' working for other local authorities have moved away from a rigid annual plan and are developing

shorter plans (perhaps four or six-month plans) with an aim to review them at set stages to ensure the focus is kept current and is reflective of the fast-changing circumstances. The HoIAS is proposing to adopt six month planning cycles and this report provides a list of planned work for the six months to the end of September 2021.

5. The Committee has traditionally received a report at each of its meetings on progress against plans including a summary of work undertaken and progressing the implementation of high importance (HI) recommendations. With the proposed move to six monthly planning, it seems prudent to report future plans and progress against them together, and so this report is the first 'merged' report.
6. Over the last 18 months, the HoIAS has provided four reports to the Committee on developments in local (external) audit arrangements, the last being at the meeting of 4 June 2021. There, the HoIAS reported the Government's proposal for the new Audit, Reporting and Governance Authority (ARGA) to take on the role as system leader for the local (external) audit framework, which would ensure alignment with, and harness the positive impact of, the broader audit reforms. That report also informed that the new arrangements will encompass a separate auditor appointing body, in which Public Sector Audit Appointments Ltd (PSAA) will be reconfirmed into the role, with commercial support from The Ministry for Housing Communities and Local Government (MHCLG) for the next procurement. Shortly after the 4 June Committee meeting, PSAA launched its draft prospectus for 2023 and beyond. It is considered prudent to include the details within this report.

The Internal Audit Planning Cycle

7. At the meeting of 4 June 2021, the HoIAS provided detail to the Committee of the various sources of information available to him to inform where the Council might require assurance on its systems of governance, risk management and internal control. He also explained that he needed to plan audits and undertake other work that are either outside of, or 'cut across' risk register boundaries.
8. Work continues in closing off audits commenced in 2020-21 and following up on the implementation of high importance (HI) recommendations. New year audits have already started where Department Management Teams and Assistant Directors have put forward areas where they would like assurance to be provided. From the other information gathered, a first short plan of audits to be started has been prepared which is contained in **Appendix 1**. The audit area is included, what part of the control environment will be covered i.e. governance, risk management or internal control and a basic rationale for inclusion. The availability of resources will determine allocation and progressing. A high number of grants (16) are required to be certified by the end of September 2021.
9. The first six month plan for the period to the end of September 2021 has been shared with and approved by Chief Officers (a requirement of the PSIAS).

Accepting that urgent/emergency items may need to override the planned timing, in early October, the HoIAS will review progress, key findings and performance from the first 6 months and report them to the Director of Corporate Resources. Chief Officers will then agree the next six months priorities.

10. The Committee will continue to receive progress reports at its regular meetings based on the new methodology and detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.

Summary of work undertaken

11. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken. Internal audit staff also undertake other control environment related work. **Appendix 2** provides a summary of work undertaken between 15 May and 18 June 2021. During this very short time period between Committee meetings, it is inevitable that little movement and closure of audits has occurred.
12. For assurance audits (page 1 of Appendix 2) an 'opinion' is given, i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.
13. The Council's Internal Audit Service (LCCIAS) also undertakes consulting/advisory type audits. Details, including where these incur a reasonable amount of resource, are included on page 2 of Appendix 2. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes, and policies. The ICT Auditor oversees reviews of higher risk Information Security Risk Assessments (ISRA).
14. Pages 3 and 4 of Appendix 2 provides information on: -
 - a. Where LCCIAS either undertakes itself (or aids others) with unplanned investigations. These are not reported to the Committee until the outcome is known. During this period, two investigations were concluded.

- b. 'Other control environment/assurance work', which gives a flavour of where internal auditors are utilised to challenge and improve governance, risk management and internal control processes which ultimately strengthens the overall control environment.
 - c. Where LCCIAS auditors are utilised to undertake work assisting other functions – non occurred during this period.
15. In order to remain effective, LCCIAS staff regularly attend virtual training and development events and both midlands and national internal audit network events. A summary of events attended during the last quarter is shown on page 5 of Appendix 2.

Progress with implementing high importance recommendations

16. The Committee is also tasked with monitoring the implementation of high importance recommendations. **Appendix 3** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some update has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.
17. To summarise movements within Appendix 3 (once again acknowledging there has been a very short time span between Committees): -
- a. **New** – none this cycle
 - b. **In progress (extended – longest timespan first)**
 - i. Consolidated risk – Records management (recommendation 2 only).
 - ii. Consolidated risk – ICT externally hosted contracts
 - iii. Consolidated risk – Rights of audit in procurement contracts
 - iv. Adults & Communities – Direct Payments (2)
 - v. Chief Executives - Coroner Recharges
 - vi. Consolidated Risk - Travel, Subsistence and Related Allowances (COVID-19 related changes).
 - c. **Closed**
 - i. Consolidated risk – Gifts and hospitality registers.

Local (external) audit arrangements from 2023 and beyond

18. Within the Council's Constitution under Part 3 'Responsibility for Functions', the Corporate Governance Committee has a responsibility, 'To monitor the

adequacy and effectiveness of the external audit of the Council's services and functions and to: -

- a. consider the nature and scope of the external audit of the Council's services and functions'.
19. During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24. In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by the PSAA. Following reports to the Corporate Governance Committee and County Council in 2016, the County Council opted in to the PSAA auditor arrangements from 2018/19.
 20. PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms.
 21. On 10th June PSAA launched its draft prospectus for 2023 and beyond which provides an introduction to the PSAA national scheme and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Details can be found at: -

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>
 22. The prospectus explains in some detail how the audit market quickly destabilised starting in 2018 when a series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession there has been the results of four independent reviews commissioned by Government including Redmond's review of local authority financial reporting and external audit. Much of this has been explained to the Committee in previous reports.
 23. It is PSAA's view that the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews; as further regulatory pressure is applied; and as firms respond and adapt. It considers that local government audit will not be immune from these difficulties.

24. The prospectus includes plans to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20 (i.e. the focus of appointing external auditors will be clearly on quality, not cost). This change in approach would be supported by key performance indicators on audit approach, quality assurance arrangements, resourcing, capacity and capability. There is some nervousness in the local government sector about this proposal, in that whilst quality is clearly important, costs must not become excessive.
25. Consultation on the prospectus closed on 8th July. The Director of Corporate Resources compiled a response which was shared with the Chair of the Committee should he also wish to respond on behalf of the Committee. A further report will be brought to the Committee once the consultations are concluded.

Resource Implications

26. There are no resource implications arising directly from this report.

Equality and Human Rights Implications

27. There are no discernible equality and human rights implications resulting from the audits listed.

Recommendation

28. That the contents of the routine update report be noted.

Background Papers

The Constitution of Leicestershire County Council

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1187&MId=6195&Ver=4&Info=1>

Report to the Corporate Governance Committee – ‘Audit and Governance Update’ – 31 January 2020:

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6053&Ver=4>

Reports to the Corporate Governance Committee – ‘Updates in Developments in Local (External) Audit Arrangements – 25 November 2020, 29 January 2021, 4 June 2021:

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6361&Ver=4>
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6492&Ver=4>
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6493&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1	Internal Audit Plan – 6 months to end of September 2021
Appendix 2	Summary of Internal Audit Service work undertaken between 15 May and 18 June 2021.
Appendix 3	High Importance Recommendations at 25 June 2021

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Internal Audit Planned Work to end of September 2021

<u>Department</u>	<u>Audit area</u>	<u>Theme</u>	<u>Rationale</u>
A&C	Safeguarding – Potential areas suggested - (role of CSC; adequacy of website; contract management of 3rd parties; 3rd party training)	G/RM	AD request for assurance
A&C	Sustainability of the social care market post Covid-19.	G/RM	AD request for assurance
A&C	Procurement – Home Care for Leicestershire	G/RM	AD request for assurance
A&C	Discharge to Assessment (D2A) process	G/RM	AD request for assurance
A&C	Disabled Facilities Grant	IC	Grant requiring certification
C&FS	processes	G/RM	AD request for assurance
C&FS	Recruitment and retention of staff	G/RM	AD request for assurance
C&FS	LGO Ruling - Nursery fees and the Free Early Education Entitlement	G/RM	AD request for assurance
C&FS	LGO Ruling - School Admissions	G/RM	AD request for assurance
C&FS	Maintained school audits	All	HolIAS requirement
C&FS	Maintained schools – themed audits to include SFVS, Business Continuity plans	IC	HolIAS requirement
C&FS	Supporting Leicestershire Families	IC	Grant requiring certification
C&FS	Basic Need Grant	IC	Grant requiring certification
Consolidated risk	Governance Risk Resilience Framework	G/RM	Governance Group requirement
Consolidated risk	Public Interest Report - gauge likelihood of happening at LCC	G/RM	Governance Group requirement
Consolidated risk	Records Management f/u - post Summer Sort Out	RM	Follow up implementing recommendations
Consolidated risk	Externally Hosted Contracts.	G/RM	Follow up implementing recommendations
Consolidated risk	Rights of Audit	G/RM	Follow up implementing recommendations
Consolidated risk	Supplier code of conduct	G/RM	Follow up implementing recommendations
Consolidated risk	Workforce Well Being	G/RM	AD request for assurance
Consolidated risk	Information Security Risk Assessments	IC	Usual review of higher risk developments
Consolidated risk	Counter Fraud Fit Note Process	IC	AD request for assurance
Consolidated risk	Counter Fraud NFI	IC	Usual review of higher risk developments
Consolidated risk	Cyber Security	IC	Nationwide risk
Consolidated risk	PSN Certification	G/RM	HolIAS requirement
Consolidated risk	Hardware & Software Assets	IC	HolIAS requirement
Consolidated risk	Fraud Risks - Changes to bank accounts	IC	Nationwide risk
Consolidated risk	Disaster Recovery (ICT)	G/RM	AD request for assurance

<u>Department</u>	<u>Audit area</u>	<u>Theme</u>	<u>Rationale</u>
CR	Fusion - Expenses	IC	AD request for assurance
CR	Fusion - Workarounds, residual risks and issues management	IC	AD request for assurance
CR	Fusion - System Admin (local responsibility) - starters, leavers	IC	AD request for assurance
CR	Surveillance Systems	G/RM	AD request for assurance
CR	Commercial Services Budget Management	IC	Follow up implementing recommendations
CR	Fusion - Various payables methods	IC	HolAS requirement
CR	Tax Digital	IC	HolAS requirement
CR	PDSA (Public Sector Decarbonisation Scheme)	IC	Grant requiring certification
CR	COVID 19: Winter Grant Certification Audit (Claim2)	IC	Grant requiring certification
CR	Covid Local Support Grant	IC	Grant requiring certification
E&T	Construction project	G/RM	Follow up implementing recommendations
E&T	Climate change and carbon emissions	G/RM	Nationwide risk
E&T	The Parking Board/Partnership (with districts) – Governance arrangements	G/RM	AD request for assurance
E&T	HS2 – Review of progress against the Business Case	G/RM	AD request for assurance
E&T	Members Highways Fund	G/RM	AD request for assurance
E&T	Bus Service Operators Grant (BSOG)	IC	Grant requiring certification
E&T	Challenge Fund Grant	IC	Grant requiring certification
E&T	Integrated Transport, Highway Maintenance and Incentive Fund.	IC	Grant requiring certification
E&T	Pothole and Challenge Fund	IC	Grant requiring certification
E&T	Major Road Network Grant	IC	Grant requiring certification
E&T	COVID 19 - Bus Services Support Grant Restart Scheme	IC	Grant requiring certification
E&T	COVID 19 - Additional Dedicated Home to School and College Transport Funding	IC	Grant requiring certification
E&T	Travel demand Management Intial Grant	IC	Grant requiring certification
PH	Residential Rehabilitation and interim arrangements.	G/RM	AD request for assurance
PH	Re-procurement of DSVA (Domestic Sexual Violence and Abuse Service)	G/RM	AD request for assurance
PH	Suicide prevention – Implementation and effectiveness of the partnership.	G/RM	AD request for assurance
PH	Covid funding – any other potential grants that may come in requiring sign off.	IC	Grant requiring certification
PH	Track & Trace Funding Allocation	IC	Grant requiring certification

Summary of Internal Audit Service Work – 15th May to 18th June 2021

Appendix 2

Assurance Audits

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 18/6)</u>	<u>Opinion</u>	<u>HI Rec'n</u>
Consolidated Risk	Working from home equipment allowance – Tranche 2	Testing Complete	TBC	TBC
Consolidated Risk	Travel, Subsistence and Related Allowances (COVID-19 related changes)	Testing Ongoing	N/A	TBC
Consolidated Risk	CCTV and Surveillance Audit	Testing Ongoing	TBC	TBC
Consolidated Risk	Data Sharing Agreements	26-05-21	Substantial	No
Consolidated Risk	National Fraud Initiative – investigation of outputs from data matching	Testing Ongoing	TBC	TBC
Corporate Resources	Professional Indemnity Insurance Cover	Testing Completed	TBC	TBC
Children & Family Services	Elizabeth Woodville Primary School – Grant claim (EdTech Demonstrator Schools and Colleges Programme)	9-Jun-21	Certified	No
Environment & Transport	2020/21 - COVID-19 LTA Bus Services Support Grant Restart Scheme (Revenue) (Period 19/1/21 – 15/3/21)	11-Jun-21	Certified	No

Consulting audits

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 18/6)</u>
Consolidated Risk	IAS continues to provide advice to the PSN working group as and when required. Submission sent to the Cabinet office end of February. Certification outstanding.	Ongoing
Consolidated Risk	ICT Policies and Procedures - Attendance at the Information Assurance Group	Ongoing
Children & Family Services	Cyber/ransomware risk in schools working party	Input complete – Police webinars launched
Corporate Resources	Fit for the Future Project: - NCC Audit contacted LCC Audit regarding requirements to log back in to Oracle Fusion following a period of inactivity and requirements for two factor authentication for external access.	Ongoing – Post go-live issues
Corporate Resources	ISRA – Stor-a-file Scanning	Ongoing

Undertaking or aiding with unplanned ‘investigations’

<u>Department</u>	<u>Entity / Details</u>	<u>Outcome by 18/6</u>
Adults & Communities	Procurement fraud – attempted interference to an ongoing tendering exercise by what may have been a fraudster	Advice given
Chief Executive’s	Falsification of receipts in support of grant expenditure claimed by a voluntary organisation	Advice given; grant recovered. Third-party Police referral.

Other control environment/assurance work

<u>Department</u>	<u>Entity</u>	<u>Final report (or position at 18/6)</u>
Governance	Convened a group to discuss implementing the Centre for Governance & Scrutiny governance risk resilience framework and assessing the risks of incurring a Public Interest Report	Added to IA plan
Governance	Annual Governance Statement 2020-21: Draft Annual Governance Statement prepared for review by the Senior Officer Group and Chief Officers	Complete
Consolidated Risk	Collate risk related information from all Departments and prepared Risk Management update reports to Corporate Governance Committee for 23 July 2021	Complete
Consolidated Risk	Review of Register of Interests & Gifts and Hospitality in conjunction with the Director of Law & Governance	Complete

Work assisting other functions

<u>Department</u>	<u>Entity</u>	<u>Position at 18/6</u>
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None this period

Training, development and networks attended during the period

Local Authorities Chief Auditors Network

- Webinar –The governance risk resilience framework; Self-assessing against the risk of incurring a Public Interest Report

Midlands Counties Heads of Internal Audit Groups

- Management group
 - Webinar - The resilience of internal auditors
- ICT Audit Group
 - Inputs into Points of Practice
 - ICT Audit Subgroup attended 18th May 2021. LCC have registered so that they can now access the Knowledge Hub

Midlands Contract Audit Group

- None this period

Institute of Internal Auditors

- None this period

CIPFA Better Governance Forum (and LGA)

- None this period

East Midlands Risk Management Group

- First quarterly meeting re-established post Covid-19 – share risk management best practice amongst group members.

Other training & development

- East Midlands Cyber Resilience Centre – Cyber Crime / Ransomware webinars for Leicestershire Schools and Academies

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High Importance Recommendations at 25th June 2021

<u>Audit Title (Director)</u>	<u>Summary of Finding(s) and Recommendation(s)</u>	<u>Management Response</u>	<u>Action Date (by end of) & extensions</u>	<u>Confirmed Implemented</u>
Reported June 2021				
Coroner Recharges (Chief Executives)	<p>Two HI recommendations were made: -</p> <p>1) The draft Memorandum of Agreement (MOA) with Leicester City Council should be promptly reviewed and updated and then signed by both parties, with appropriate monitoring arrangements built in to the agreement.</p> <p>2) Requirements to address areas of weaknesses identified such as, timeliness of receipt of financial information and documentation of reasons for budget adjustments, should be captured in the revised MOA. Adherence to the requirements in the MOA should be monitored.</p>	<p>Agreed</p> <p>Audit re-testing currently in progress</p>	<p>June 2021</p> <p>Extend to July 2021</p>	
Travel, Subsistence and Related Allowances (COVID-19 related changes) (Consolidated Risk)	<p>No individual HI recommendations, but collective control weaknesses resulted in a partial assurance rating.</p> <p>Recommendations covered:</p> <ul style="list-style-type: none"> • Aligning temporary instructions with policy • Accuracy of reporting and receipt evidence • Authorisation process 	<p>Agreed</p> <p>Audit re-testing currently in progress</p>	<p>June 2021</p> <p>Extend to July 2021</p>	

Reported November 2020				
Direct Payments (Personal Budgets)	<p>A review of the tableau dashboard of service users receiving an annual review revealed that as of 1st March 2020 there were 324 service users awaiting an annual review. Of these 35 were overdue by more than 12 months and 99 by between 6 and 12 months.</p> <ol style="list-style-type: none"> 1. Recommended annual reviews of all service users' care and support plans to establish whether client needs had changed, and the level of direct payment was appropriate to meet those needs. <p>A review of Direct Payment Agreements found that where an arrangement was in place to pay a close member of family for providing care services, this was not recorded in the care and support plan, nor was approval obtained from the Head of Service as is required according to direct payments guidance. In addition, evidence was seen of expenditure that could potentially be considered to be contentious.</p> <ol style="list-style-type: none"> 2. It was recommended that the policy regarding paying close family members and carers living in the same house for providing care services should be adhered to. Where family members are used for providing care services, this should be recorded in the care and support plan, and contentious expenditure should be authorised by the Head of Service. <p>The feasibility of a retrospective review (and authorisation at Head of Service level) of service users making payments to family members should be considered. If this is not feasible, it should be covered at the point of next annual review.</p>	<p>Department has confirmed that implementation of the changes is on track</p>	<p>December 2020 May 2021</p> <p>Extended to July 2021</p> <p>December 2020 May 2021</p> <p>Extended to July 2021</p>	

Reported July 2020				
ICT Externally Hosted Contracts (Consolidated risk)	<p>Three HI recommendations were made: -</p> <ol style="list-style-type: none"> 1. Confirm the circumstances of the contract before deleting records 2. Conduct an audit to determine whether valid contract are in place 3. Decide whether original (signed) contracts should be held centrally. <p>Recommendations have been expanded to cover the wider contracts database</p>	<p>Centralised database is not complete but is well developed i.e. database holds information on around 1,000 contracts (as to previously around 200).</p> <p>Copies of contracts still being obtained</p> <p>More work needed in respect of a Procurement toolkit and subsequent update of Intranet</p>	<p>Initial recommendations September 2020 December 2020 March 2021 June 2021</p> <p>Extend to July 2021</p> <p>Extend to December 2021 for the Procurement toolkit</p>	
Rights of audit in procurement contracts (Consolidated risk)	<p>Two HI recommendations were made: -</p> <ol style="list-style-type: none"> 1. Include rights of audit clauses within all corporate guidance and any subsequent toolkits/associated training 2. Consider requesting a variation to retrospectively include rights to audit clauses for any relevant contracts (balancing cost v benefit) 	<p>Assured as completed but awaiting evidence</p>	<p>September 2020 December 2020 March 2021 June 2021</p> <p>Extend to July 2021</p>	
Gifts and Hospitality Registers (Consolidated risk)	<p>Two HI recommendations were made: -</p> <ol style="list-style-type: none"> 1. Strengthen reminders for employees to complete the Counter Fraud e: learning module & consider escalation procedures for non-compliance. 2. Improve manager knowledge of gifts & hospitality through Managers Digest or specific forums to increase use 	<p>Reminder issued by Comms Team</p> <p>Policy was signed off through the Corporate Negotiating and Consultative Committee (CNCC) process in May.</p>	<p>Complete</p>	<p>Yes</p>

Reported June 2020				
Records management (Consolidated Risk)	<p>Internal Audit randomly chose three sections within County Hall to undertake floor walks. The exercise identified some confidential and sensitive records that were not secured.</p> <p>Recommended</p> <ol style="list-style-type: none"> 1. Communicate to staff that physical records containing personal and sensitive information should be held securely. 2. Ad hoc spot checks should be independently undertaken by the Information Governance Team or Internal Audit. 	<p>Two further floor walks were undertaken in March 2021 which identified actions are still needed. Reminders have gone to all departments and the Data Protection Officer has received assurances from departments that they have/are carrying out checks.</p> <p>Findings from the floor walks (particularly in respect of securing both electronic and physical storage) are being incorporated into the revised Ways of Working Programme and the associated Summer clean up.</p> <p>Until both of these pieces of work are completed and then tested it would not be appropriate to sign off this recommendation as completed.</p>	<p>Immediate September 2020 December 2020 March 2021</p> <p>Extended to August 2021</p>	<ol style="list-style-type: none"> 1. Yes 2. Tba



CORPORATE GOVERNANCE COMMITTEE: 23 JULY 2021

QUARTERLY TREASURY MANAGEMENT REPORT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to update the Committee on the actions taken in respect of treasury management for the quarter ending 30 June 2021 (Quarter 1).

Policy Framework and Previous Decisions

2. The annual investment strategy for 2021/22 forms part of the Council's medium term financial strategy (MTFS) and was approved by full council in February 2021.
3. An update in respect of Quarter 4 2020/21 was provided to the committee on 4th June 2021.

Background

4. Treasury Management is defined as:

“The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

5. A quarterly report is produced for the Committee to provide an update on any significant events in treasury management.

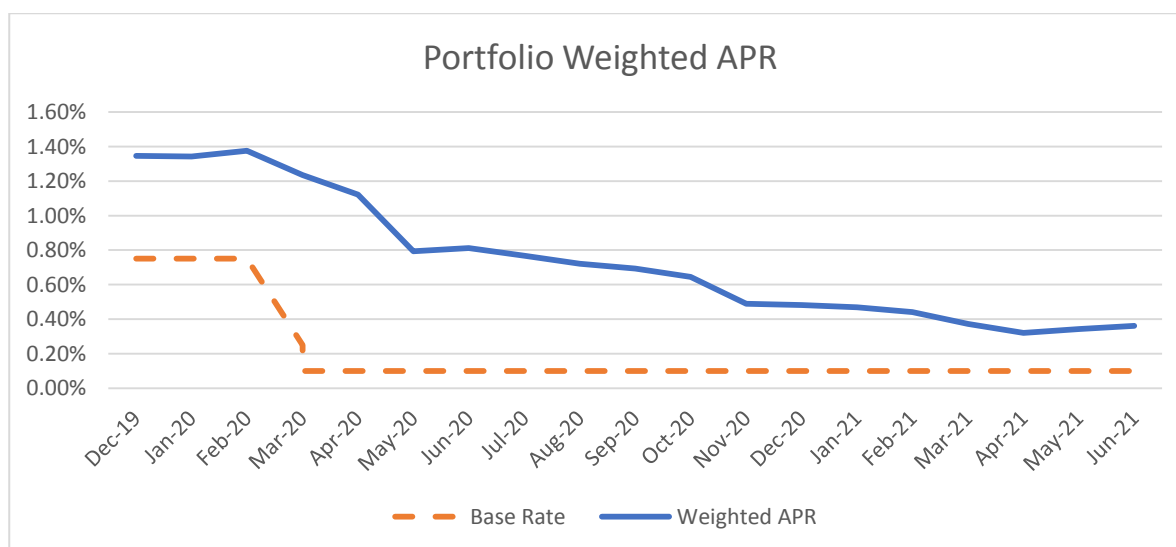
Economic Background

6. The Council's treasury management adviser, Link Asset Management (Link), provides a quarterly update outlining the global economic outlook and monetary policy positions. An extract from this report is attached as Appendix A to this report. The key points are summarised below.
7. The Bank of England's (BoE) Monetary Policy Committee (MPC) left the base rate and levels of quantitative easing unchanged at its 24th June meeting. The MPC noted that economic activity was increasing and as such the BoE has revised expectations for Q2 2021 GDP growth from 4.5% to 5.5%.

8. Upward movement is also anticipated with respect to inflation as measured by the Consumer Price Index (CPI). It is expected to exceed 3% for a temporary period this year. However, the MPC appears willing to ride this out over the next six months, believing it will be short lived and caused by one-off business reopening price rises and supply shortages relative to demand – boosted by consumer savings amassed during Covid-19 pandemic related lockdown periods.
9. The MPC reiterated its previous guidance that the Base Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation is below 2%. This is termed average inflation targeting.
10. The BoE also indicated it is undertaking a review of its stated current policy to raise the Bank Rate first before unwinding quantitative easing (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising the Bank Rate.

Action Taken During Quarter 1 to June 2021

11. The balance of the investment portfolio increased from £308.2m to £346.9m. Within the portfolio, £113m of investment loans matured at an average rate of 0.23% (excluding Private Debt), and £153.1m of new loans were placed, at an average rate of 0.18%. The Council also received capital receipts for the partners private debt investment totalling £1.4m.
12. To date the Council has received nine distributions from the private debt investment totalling £8m. Of this £6.2m represents return of invested capital, with the remaining £1.8m representing interest received. This means from an initial investment of £20m the Council has £13.8m remaining capital committed. The private debt investment represents only a small portion of the total portfolio, but, with a current internal rate of return (IRR) of 4.3%, is contributing significantly to the total portfolio annual percentage rate (APR). The APR including private debt is 0.36% versus a loans only APR of 0.20%.
13. The average rate achieved on new loans continues to fall short of the average rate of loans maturing. This was expected due to a historically low base rate and the trend is likely to continue, as the markets do not foresee an increase in rates any time soon. As a result, the portfolio weighted APR reduced from 0.37% in Q4 20-21 to 0.36% in Q1 21-20.
14. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate:



15. The loan portfolio at the end of December was invested with the counterparties shown in the table below, listed by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	23.1	July 2021
6 Months		
Australia and New Zealand Bank	20.0	July 2021
HSBC	40.0	July 2021
Nationwide Building Society	15.0	July 2021
Lloyds (Bank of Scotland)	5.0	July 2021
Santander	20.0	September 2021
Close Brothers	10.0	September 2021
Close Brothers	20.0	October 2021
Landesbank Baden Wurtemberg	10.0	October 2021
Landesbank Hessen Thuringen	10.0	October 2021
Santander	10.0	October 2021
Landesbank Hessen Thuringen	10.0	November 2021
Goldman Sachs	30.0	November 2021
National Bank of Canada	10.0	November 2021
9 Months		
National Westminster Bank Plc	20.0	October 2021
National Westminster Bank Plc	10.0	February 2022
12 Months		
National Westminster Bank Plc	10.0	August 2021
Lloyds (Bank of Scotland)	20.0	September 2021
National Westminster Bank Plc	10.0	November 2021
Toronto Dominion Bank	20.0	May 2022
Beyond 12 Months		

Partners Group (Private Debt)	13.8	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31 March 2021	346.9	

16. Market conditions remain challenging, as outlined in last quarter's update. Yields continue to fall and demand for capital has not picked up. The Council will continue its low risk approach to treasury management whilst trying to be mindful of rates earned.

Loans to Counterparties that breached authorised lending list

17. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made.

Resource Implications

18. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. For 2020/21 the interest generated by treasury management activities (including private debt and pooled property investments) totaled £3.1m. This compares to budgeted income of £2.8m. The excess income is mainly due to the Council's private debt investment returning income sooner than forecasted.

Recommendations

19. The Committee is asked to note this report.

Background papers

20. None

Circulation under the Local Issues Alert Procedure

21. None

Equality and Human Rights Implications

22. There are no discernible equality and human rights implications

Appendices

23. Appendix A – Economic Overview (June 2021)

Officer to Contact

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Appendix A

Economic Overview (June 2021) – Provided by Link Asset Services

UK. The 24 June Monetary Policy Committee meeting voted unanimously to keep Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end by the end of this year. In the press release, it was noted that:-

“Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory”.

The MPC noted the developing upside risks in the UK to both activity and inflation. It said that the news on activity “had predominately been to the upside” and that Bank staff had “revised up their expectations for 2021 Q2 GDP growth to 5½% from 4¼%”. For the first time, the policy statement noted that “there are increasing signs of recruitment difficulties for some businesses” and the minutes said, “it was possible that the near-term upward pressure on prices could prove somewhat larger than expected”. Indeed, by saying that inflation “is likely to exceed 3% for a temporary period” the MPC admitted the Governor will have to write to the Chancellor later this year explaining why inflation is more than 1% above the 2% target.

But the key point is that the MPC still appears willing to ride out the **inevitable spike in inflation** over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown. These spikes will drop out of the CPI calculation over the next twelve months. The forward guidance in the policy statement designed to demonstrate the MPC’s patience was left intact, and the emphasis remained on “the medium-term prospects for inflation” rather than factors that are “likely to be transient”. The minutes said the MPC should “ensure that the recovery was not undermined by a premature tightening in monetary conditions”. It also repeated that it will not raise Bank Rate until the 2% inflation target has been attained sustainably i.e. the mere fact that it is forecasting inflation to be over 2% during 2021 and 2022 is not in itself sufficient to justify an increase in Bank Rate in the near future. The MPC indicated in the minutes that some members would prefer to wait for a clearer picture of the underlying pace of the recovery once the furlough scheme expires at the end of September, before making any judgement on medium-term inflationary pressures. This implies that the MPC may be unlikely to be in a position to consider a change in policy until early in 2022 at the earliest.

In addition, the Bank is undertaking a review of its stated current policy to raise Bank Rate first before **unwinding quantitative easing** (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising Bank Rate as it sees QE as a very useful quick acting weapon to use to combat any sudden dysfunction in financial markets, as happened in March 2020. However, it is currently nearly maxed out on the total level of QE. Unwinding QE first would cause short term gilt yields to remain anchored at low levels and medium and long term gilt yields to steepen. Money markets are currently expecting Bank Rate to start rising in mid-2022 but they are probably being too heavily influenced by looking across the Atlantic where inflationary pressures are much stronger than in the UK and building up further under a major boost from huge Federal government stimulus packages. Overall, there could be only a minimal increase in **Bank Rate** in 2023 or possibly no increases before 2024.

GDP. The Bank revised up its expectations for the level of UK GDP in 2021 Q2 by around 1½% since the May Report due to the easing of restrictions on economic activity; this now leaves total GDP in June only around 2½% below its pre-Covid 2019 Q4 level. UK GDP grew by 1.5% in the three months to April 2021: this was the first expansion since the three months to December 2020. Forward looking monthly business surveys are running at exceptionally high levels indicating that we are heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns. The one month delay to the final easing of restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

CPI. The annual inflation rate in the United Kingdom rose to 2.1% y/y in May from 1.5% y/y in April: this is the first time that the measure has been above the Bank of England’s 2% target since July 2019.

Appendix A

COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the second half of 2021** after a third wave of the virus threatened to overwhelm hospitals in Q1 this year. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The UK has made fast progress, giving both jabs to nearly half of the total population and one jab to two thirds, (84% of all adults). This programme should be completed in the second half of the year. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. Since the Democrats won the elections in late 2020 and gained control of both Congress and the Senate, (although power is more limited in the latter), they have passed a \$1.9trn (8.8% of GDP) stimulus package in March 2021 on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also now negotiating to pass a \$1trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation had actually been under-shooting the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after that meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow by allowing inflation to run higher for longer, even if they do not call it a policy of average inflation targeting as such.

In the **Fed's June meeting**, it stuck to its line that it expects strong economic growth this year to have only a transitory impact on inflation which is being temporarily boosted by base effects, spikes in reopening inflation and supply shortages. The big surprise was the extent of the upward shift in the "dot plot" of interest rate projections: having previously expected no hikes until 2024 at the earliest, most officials now anticipate two in 2023, with 7 out of 18 expecting to raise rates next year. This was a first indication that there was rising concern about the risks around inflationary pressures building up on a more ongoing basis and is somewhat hard to reconcile to the words around inflation pressures being only transitory.

Treasury yields in the US ought to rise much more strongly than gilt yields in the UK due to the divergence in the levels of inflationary pressures and the levels of surplus capacity currently in both economies, (the US is much nearer full capacity than the UK). Bond investor sentiment could lean in the direction that even if central banks refrain from raising central rates in the short term, all they are doing is setting up sharper increases further down the line. This is likely to cause increases in longer-term bond yields without any actual increases in central rates. There will then be a question as to how strong an influence rising treasury yields will have on gilt yields. Due to the divergence between the US and UK economies, it is expected that the Fed rate will need to increase first before Bank Rate and that there could be a significant delay before the Bank of England follows suit.

EU. Both the roll out and take up of vaccines was disappointingly slow in the EU in the first few months of 2021 but has since been rapidly catching up. This delay will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. After contracting by another 0.3% in Q1 of 2021, recovery will now be delayed until Q3 of 2021. At its June meeting, the ECB forecast strong economic recovery with growth of 4.6% and 4.7% in 2021 and 2022 respectively.

Inflation is likely to rise sharply to around 2.5% during 2021 for a short period, but as this will be transitory, due to one-off factors, it will cause the ECB little concern. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains

Appendix A

this as a possible tool to use. The ECB's December 2020 meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The total PEPP scheme of €1,850bn of QE, which started in March 2020, is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB maintains this level of support. The March ECB meeting also took action to suppress the rise in long bond yields by stepping up its monthly PEPP purchases. Meetings in April and June confirmed these policies so monetary policy will remain highly accommodative with no sign yet of tapering of asset purchases.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the contraction in Q1 2021. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. After making a rapid recovery in 2020/21, growth is likely to be tepid in 2021/22.

Japan. A third round of fiscal stimulus in December 2020 took total fresh fiscal spending in 2020 in response to the virus close to 12% of pre-virus GDP. That is huge by past standards, and one of the largest national fiscal responses. The resurgence of Covid in Q1 2021, coupled with a slow roll out of vaccines, has pushed back economic recovery. However, quickening of vaccinations in the second half of 2021 will lead to a strong economic recovery to get back to pre-virus levels by the end of 2021 – around the same time as the US and sooner than the Eurozone.

World growth. World growth was in recession in 2020 but should recover during 2021. Inflation is unlikely to be a significant problem in most countries for some years due to the creation of excess production capacity and depressed demand during the coronavirus crisis.

Impact on gilt yields and PWLB rates in 2021. Since the start of 2021 gilt yields and PWLB rates have risen sharply. What has unsettled financial markets has been a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic, in addition to the \$900bn support package passed in December. Financial markets have been concerned that the two packages, on top of the Fed already stimulating the economy by cutting the Fed rate to near zero and unleashing massive QE, could cause an excess of demand in the economy which **unleashes strong inflationary pressures**; these could then force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

A further concern in financial markets is **when will the Fed end quantitative easing (QE) purchases of treasuries** and how they will gradually wind it down. These ongoing monthly purchases are currently acting as downward pressure on treasury yields. Nonetheless, during late February and in March, yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields moved higher after the MPC meeting in early February as a result of both developments in the US, and financial markets also expecting a **similarly rapid recovery of the UK economy as in the US**; both countries were expected to make similarly rapid progress with vaccinating their citizens and easing Covid restrictions. They are, therefore, expecting inflation to also increase more quickly in the UK and cause the MPC to respond by raising Bank Rate more quickly than had previously been expected.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China which caused considerable consternation in western countries. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation

Appendix A

and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates from rates in prior decades.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is, therefore, very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. The Fed has changed its policy on inflation to targeting an average level of inflation. Greater emphasis will also be placed on hitting subsidiary targets e.g. full employment, before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.