Meeting:	**Corporate Governance Committee**
Date/Time:	**Friday, 22 September 2023 at 10.00 am**
Location:	**Sparkenhoe Committee Room, County Hall, Glenfield**
Contact:	**Mrs J. Twomey (tel: 0116 305 2583)**
Email:	**joanne.twomey@leics.gov.uk**

Membership

Mr. T. Barkley CC (Chairman)

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

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 26 May 2023.		(Pages 3 - 8)
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.	Presentation of Petitions under Standing Order 35.		

7.	Insurance Service - Annual Report 2022-23 A presentation from Marsh Limited will be provided as part of this item.	Director of Corporate Resources	(Pages 9 - 20)
8.	Annual Report on the Operation of the Members' Code of Conduct 2022/23	Director of Law and Governance	(Pages 21 - 28)
9.	Risk Management Update	Director of Corporate Resources	(Pages 29 - 54)
10.	Update on Audit Delays and Public Sector Auditor Appointments (PSAA) Consultation on 2023/24 Audit Fees	Director of Corporate Resources	(Pages 55 - 72)
11.	Internal Audit Service - Progress and Plans	Director of Corporate Resources	(Pages 73 - 92)
12.	Quarterly Treasury Management Report	Director of Corporate Resources	(Pages 93 - 106)
13.	Date of next meeting. The next meeting is scheduled to take place on Friday, 17th November 2023 at 10.00am		
14.	Any other items which the Chairman has decided to take as urgent.		

Agenda Item 1

Leicestershire County Council

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Friday, 26 May 2023.

PRESENT

Mr. N. D. Bannister CC
Mr. T. Barkley CC
Mr. D. C. Bill MBE CC
Mr. G. A. Boulter CC
Mr. B. Champion CC
Mr. J. T. Orson 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 2024.

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 2024.

3. Minutes of the previous meeting.

The minutes of the meeting held on 16 March 2023 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.

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

6. Urgent items.

The Chairman advised that there was one urgent item for consideration which was a report from the Director of Law and Governance titled ‘Dispensation for Non-Attendance’. The report was urgent as the member concerned, if they were unable to attend full Council in July 2023, would automatically cease to be an elected member of the Council.

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 non-registerable interest in agenda items 14 and 15 (Quarterly Treasury Management Update and Annual Treasury Management Statement 2022/23 respectively) as he was in receipt of a pension from Lloyds Bank Plc.

8. Presentation of Petitions.

The Chief Executive reported that no petitions had been received under Standing Order 35.

9. External Audit Plan 2022/23

The Committee considered a report of the Director of Corporate Resources which presented the 2022/23 external audit plan and audit risk assessment for the Council and its Pension Fund. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

The Chairman welcomed Mary Wren from Grant Thornton UK LLP, the County Council's external auditors, to the meeting.

Arising from discussions the following points were noted:

(i) The introduction of auditing standard 'ISA315 - identifying and assessing the risks of material misstatement' required the auditor to obtain an enhanced understanding of the Council's business processes, IT systems and controls. An additional audit fee of £5000 had been estimated for this work.

(ii) Appendix C of the report was a document entitled 'Informing the audit risk assessment for Leicestershire County Council and Pension Fund 2022/23'. Page 5 of this document included a section which set out the key events or issues that would have a significant impact on the financial statements for 2022/23. In response to a question from a member it was clarified that Special Educational Needs and Disabilities (SEND) was covered in this section under the increasing Dedicated Schools Grant (DSG) deficit.

RESOLVED:

That the report presenting the 2022/23 external audit plan and audit risk assessment for the Council and its Pension Fund be noted.

10. Risk Management Update

The Committee considered a report of the Director of Corporate Resources which provided an overview of key risk areas and the measures being taken to address them. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

It was noted that the introduction of the Oracle Fusion HR/Payroll system changed the way schools and academies accessed the payroll system. However, the changes had not always been well received by some schools and academies. Part of the reason for this was that it had not been possible to create a bespoke system for every school and academy.

In response to a question from a member as to whether the County Council's actions in relation to Oracle Fusion had resulted in a loss of business for the Council it was acknowledged that there had been an element of this, however some schools and academies welcomed the changes and therefore there had also been a positive effect on the business.

In response to a question as to whether the County Council would be outsourcing the HR/Payroll system for its own staff, it was explained that first a value for money/benchmarking review would be taking place to assess how the County Council's service compared against the market before any changes would be considered.

RESOLVED:

(a) That the current status of the strategic risks facing the County Council be noted;

(b) That the updates on the following areas be noted: -
i. Emerging risk - Cessation of HR administration and payroll services to schools and academies;
ii. Risk management actions reported in the Annual Auditors Report;
iii. Counter fraud.

(c) That a presentation on the County Council's new insurance brokers be provided at the next meeting of the Committee.

11. <u>Provisional Draft Annual Governance Statement 2022/23</u>

The Committee considered a report of the Director of Corporate Resources which presented the provisional draft Annual Governance Statement (AGS) 2022/23. A copy of the report, marked 'Agenda Item 11', is filed with these minutes.

In response to a request from a member for an update regarding the rectification of the environmental damage at Firs Farm, the Director of Corporate Resources explained that the details were currently confidential, but an update would be provided in the final draft AGS and circulated to members before it was posted on the Council's website before the end of June 2023.

RESOLVED:

(a) That the provisional draft Annual Governance Statement 2022/23 be supported;

(b) That the two significant governance issues reported in the provisional draft Annual Governance Statement 2022/23 be noted;

(c) That it be noted that the provisional draft Annual Governance Statement 2022/23, will be subject to amendments and that a final draft Annual Governance Statement 2022/23 will be circulated to members of the Corporate Governance Committee before it is published with the draft Statement of Accounts before the end of June 2023.

(d) That it be noted that the provisional draft Annual Governance Statement 2022/23, 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.

12. Internal Audit Service - Progress and Plans

The Committee considered a report of the Director of Corporate Resources which provided a summary of Internal Audit work undertaken during the period 29 October 2022 to 5 May 2023 and an update on planned work for the six months to the end of September 2023. A copy of the report, marked 'Agenda Item 12', is filed with these minutes.

A member noted the use of acronyms and abbreviations in the appendices to the report and raised concerns about whether the public would be able to understand the documents and requested that they be made more accessible.

RESOLVED:

That the contents of the report be noted.

13. Internal Audit Service Annual Report 2022/23

The Committee considered a report of the Director of Corporate Resources which presented the Annual Report on the work of the Internal Audit Service. A copy of the report, marked 'Agenda Item 13', is filed with these minutes.

It was noted that there was a typographical error at paragraph 12 of the Appendix (Internal Audit Service Annual Report 2022/23) which should have referred to ORACLE Fusion.

The Director of Corporate Resources gave reassurances that the Internal Audit Service now had an adequate number of experienced staff and that recruitment from the open market had been worthwhile.

RESOLVED:

(a) That the Internal Audit Service Annual Report for 2022-23 be noted;

(b) That the Internal Audit Service Annual Report for 2022-23 be circulated to all members of the County Council for information.

14. Quarterly Treasury Management Update

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 2023. A copy of the report, marked ‘Agenda Item 14’, is filed with these minutes.

It was noted that the interest generated by treasury management activities had been greater than expected due to interest rates increasing faster than anticipated. In response to a question from a member as to whether the additional monies could be used to fund Council services it was explained that it would be set aside to help meet the funding shortfall of the Capital Programme.

In response to a question from a member as to whether recent failures of US banks could have an impact on the County Council’s investments, reassurance was given that the County Council did not lend to US banks, and the European banks which it did lend to were more regulated. Whilst the recent bank failures could have some impact on global markets, the County Council did not purchase equity, it only deposited money with banks. There was always a small element of risk when lending to banks however the market was closely monitored, and reference was made to the latest credit ratings of banks before investments were made. The County Council’s treasury management adviser, Link Asset Management, provided the Council with a regularly updated list of approved banks that it recommended the Council invested with, and the County Council was cautious and only deposited with the safer banks on that list.

RESOLVED:

That the quarterly treasury management report be noted.

15. Annual Treasury Management Statement 2022/23

The Committee considered a report of the Director of Corporate Resources which advised of the performance achieved in respect of the treasury management activities of the Council in 2022/23. A copy of the report, marked ‘Agenda Item 15’, is filed with these minutes.

RESOLVED:

(a) That the Annual Treasury Management report for 2022/23 be noted;

(b) That it be noted that the Annual Treasury Management report for 2022/23 will be submitted to the Cabinet for consideration at its meeting in June 2023.

16. Date of next meeting and future meetings.

RESOLVED:

That future meetings of the Committee be held on the following dates:

Friday, 22 September 2023 at 10.00am.
Friday 17 November 2023 at 10.00am
Friday 26 January 2023 at 2.00pm
Friday 24 May 2023 at 2.00pm
Friday 27 September 2023 at 10.00am
Friday 13 December 2023 at 10.00am

17. Urgent Item - Dispensation for Non-Attendance.

The Committee considered a report of the Director of Law and Governance regarding a request from Mr. M. Mullaney CC on behalf of Mrs. L Broadley CC for a dispensation under the six-month rule in Section 85 of the Local Government Act 1972. The dispensation was being sought to allow her to continue to hold office despite her anticipated non-attendance at Council meetings. A copy of the report, marked 'Agenda Item 17', is filed with these minutes.

Members noted that Mrs Broadley CC had recently been elected as a member of Oadby and Wigston Borough Council, had attended their election count and their Annual Council meeting on 18 May 2023.

It was submitted on Mrs Broadley's behalf that due to her caring responsibilities she was unable to attend meetings during the daytime but could attend meetings in the evening.

RESOLVED:

(a) That Mrs. L Broadley CC be granted a dispensation under Section 85 of the Local Government Act 1972 to allow her to continue to hold office until 30 September 2023.

(b) That officers be requested to provide a further report to the Committee meeting on 22 September 2023 to enable a decision to be made on whether the dispensation for Mrs. L. Broadley CC should be extended.

(Note: Mr. G. A. Boulter CC voted against the motion.)

2.00 - 3.15 pm
26 May 2023

CHAIRMAN

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE
22 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INSURANCE SERVICE – ANNUAL REPORT 2022-23

Purpose

1. To provide the Corporate Governance Committee (the Committee) with the inaugural annual report on work conducted by the Insurance Service (the Service).

Background

2. Within Leicestershire County Council's (the Council's) Constitution Financial Procedure Rules, rule 31 states that the Chief Financial Officer (CFO) will be responsible for arranging or amending insurance cover. This will be in accordance with policies laid down by the Executive.

3. Standard Financial Instruction 18 (Insurance of Risks) stipulates arrangements for: -

   a. advising the Executive at key stages in the process of any litigation or disputes resolution where the Council is at risk of paying significant damages or costs;
   b. notifying the CFO immediately any fire, loss, liability or damage, or any event likely to lead to a claim;
   c. obtaining prior approval from the CFO and the Director of Law and Governance to the terms of any indemnity which the Council is requested to give:
   d. allowing that a chief officer may arrange to provide insurance cover against risks not normally covered by the County Council as a whole but such cover must be arranged via the CFO.

5. The Council's insurance programme runs from 1 October to 30 September. The current (2022-23) programme was arranged in September 2022 in conjunction with the Council's appointed Insurance Brokers, which at the time was Aon UK Ltd. The option was taken to extend the contracts provided by long term insurers Risk Management Partners (RMP) with liability and motor risks underwritten by QBE and property risks underwritten by American International Group (AIG). The Council has to re-procure for its main insurance programme in 2024 so this exercise will begin shortly after this year's renewal (autumn).

6. The Service directly employs 7 staff (5.6 fte). It not only arranges insurance cover and handles claims for the Council's own array of services, but also for ESPO, the East Midlands Freeport and maintained schools (it receives income from arranging school trip and staff absence covers). The Service also receives income from administering the Leicestershire Academies Insurance Scheme (LAIS) for academy trusts, predominantly those located within the Leicestershire boundary but for some others located in Nottinghamshire and Derbyshire and Leicester City. Zurich Municipal are the current insurers for LAIS and were awarded the contract from September 2020. The contract has just been extended and there are further options to run to August 2026.

<u>Work undertaken during 2022-23</u>

<u>Insurance Broker Re-Procurement</u>

7. The previous five year contract to provide insurance brokerage ended on 31 January 2023. Officers within the Service worked with the Council's procurement experts to utilise a Yorkshire Purchasing Organisation (YPO) framework via ESPO and re-designed and modernised the detailed request for tender information.

8. Three firms applied, Marsh Limited was successful and appointed from 1 February 2023. The contract is for a period of 12 months, with options to extend for a further 3 years in annual increments. The contract is deliberately short since as mentioned earlier the Council has no option but to re-procure its main insurance programme in 2024 and so there may be alternative brokerage options available.

9. Marsh Limited has been very proactive since its appointment, examples being: -

    a. Conducting a review of the Council's, ESPO's, LAIS' and other smaller policies to ensure that the main sums insured, limits and deductibles are appropriate. No major issues were identified but Marsh is negotiating with the insurer whether some areas of cover can be added at renewal including external claims cost support to the Council independent of a Loss Adjuster which some insurers provide as standard. This exercise will also be useful for re-procurement in 2024.

b. Planned, organised, and ran the revised procurement for engineering inspection services (lifts, stairlifts and plant equipment) and led on the evaluation of three tenders.

10. Representatives from Marsh Limited will provide a short presentation at the Committee meeting.

<u>‘Total Cost of Risk’ Exercise</u>

11. Potential losses are covered by a combination of self-insurance and a range of policies held with insurance companies. The process to identify the level of self-insured retention against the insurance required is based on several factors. These include the reduction in premium (including associated premium tax currently 12%) to be achieved by altering the excess levels weighed up against the Council’s ability to meet an increased exposure, for example by way of a spike in claims received due to external factors like the weather and for one-off large losses. ‘Aggregate stop limits’ are in place which cap the potential exposure to the Council on an annual basis by reducing the self-insured retention levels (excess) significantly once the limit has been breached.

12. Using information provided to them on claims, premiums, and claims handling costs (incurred by the Service, the Council’s legal team and external solicitors), the Council’s insurers RMP undertook (at no additional fee) a review of the current programme including the types and levels of cover and self-insured retention (SIR) limits. The intention was for RMP to assess past and present claims levels assisting the Service to judge not just the insurance approach but the level to contribute to reserves for claims incurred but not reported. RMP aimed to present its view on what would be a sensible programme, but it was clear that it would be for the Council and its broker to decide any changes. It was clear that it wasn’t conducting an actuarial valuation.

13. RMP presented very positive findings to the Service and its broker Marsh Limited on 20 March 2023, including: -

<u>Liability</u>

a. There had been no claims above self-insured retention values for over 10 years i.e. no high value claims where the insurer took on any financial liability potentially keeping premiums lower
b. Claims were well clear of the aggregate stop loss i.e. the cumulative value of claims didn’t trigger insurers getting involved
c. Whilst there had been an upward trend in claims this wasn’t a worry to RMP

d. RMP indicated the Service had a very good understanding of claims patterns and was making prudent reserves when claims were received.
e. Repudiation of highways claims was 93%, possibly the highest RMP had seen and reflected the Service's strong evidence of rigour in assessing and defending claims.
f. RMP stated that there was a very sensible pragmatic approach to risk financing. SIR history had allowed premiums to be maintained and even reduced. The risk financing approach was 'commended'.
g. RMP saw no advantage to fully externalising claims handling as there would likely be greater costs and little merit in increasing the SIR given current premiums and the Council's claims profile.

Property & Motor

h. RMP saw property performance as more straight forward with only 10 claims over last 10 years most claims fell within SIR. Again the performance was deemed to be good. RMP warned about high inflation rebuilding costs.
i. For motor there was little by way of SIR. Given the loss ratios RMP suggested it represented very good value although it commented that the loss ratio is perhaps higher than should be prompting some further risk mitigations.

14. Looking forward RMP thought that as things stood at present it didn't see how the next 10 years would differ greatly. It advised to review again every 3 years in case claims data changed.

15. Because RMP was not an actuary, and its review had been undertaken for no additional fee, it was considered prudent to obtain an alternative opinion by commissioning a comprehensive actuarial review of the Council's two in-house insurance funds to ensure that they are adequately provisioned to meet present and future liabilities and obtain advice regarding future options available to reduce or control the external costs of its insurance programme.

Actuarial Review

16. Assessing liability claim levels is difficult. Due to the nature of claims that the Council receives, some claims will have been incurred but not reported within the financial year of the incident. A number of years can elapse before a liability claim is concluded. Two earmarked funds (reserves) are held to allow for years of exceptionally high claims, both in terms of volume and value, to be covered without detriment on the annual revenue budget. In addition, provisions are held for claims received that are awaiting settlement, the level being based on an assessment of the likely liability. As at 31 March 2022, the total amount reported in the County Council's financial statements was £17.9m.

17. The funds are subject to an annual internal assessment to ensure that they are maintained at suitable levels in order to meet ongoing financial commitments. However, an external, independent actuarial valuation was last undertaken in 2015. Given the value of the funds and the time elapsed, it was considered prudent for a revised actuarial valuation to be undertaken.

18. A revised detailed specification explained that the Council wished to commission a comprehensive actuarial review of its in-house Liability Insurance Fund and Uninsured Loss Fund as at 1st October 2022 to ensure that they are adequately provisioned to meet present and future liabilities including the levy's imposed under the Municipal Mutual Insurance Co. Ltd. (MMI) scheme of arrangement (see below) and the uninsured liabilities arising from the period of cover with Independent Insurance Co. Ltd. (Independent). In addition, the Council wished to obtain advice regarding future options available to reduce or control the external costs of its insurance programme by retaining a higher level of risk in-house and advice on the resulting effect that this will have on the Fund. It was specified that the review should be compliant with the relevant Technical Actuarial Standards as adopted by the Financial Reporting Council.

19. Following some soft market analysis, the procurement option to seek to obtain a minimum of 3 written quotations was chosen. Three national brokers were contacted and Gallaghers (Arthur J Gallaghers Insurance Brokers Ltd) was chosen to undertake the exercise.

20. An array of information was provided and clarifications sought. Gallaghers has produced a draft report with recommendations but the Service is currently following up on some final matters and then options will be discussed with the Director of Corporate Resources and the Assistant Director Finance, Strategic Property and Commissioning, to determine the appropriate level of reserve to be held going forward.

Municipal Mutual Insurance Ltd

21. Municipal Mutual Insurance Limited (MMI), the Authority's insurer between November 1969 and October 1992, ceased writing insurance business owing to financial difficulties in September 1992. MMI became subject to a Scheme of Arrangement which was triggered in November 2012.

22. Once the scheme was triggered, the Scheme Administrator reviewed the assets and liabilities of MMI in order to determine whether a Levy on Scheme Creditors was required. Based on an actuarial review by KPMG an initial 15% levy was required to achieve a projected solvent run-off. MMI has collected the original 15% levy (set in January 2014) and the additional 10% levy in April 2016. As a result, the Council (as a member of the Scheme of Arrangement) is now self-insured to the extent of 25% of any future claim payments.

23. In January 2023, the Service's Technical Underwriting Manager Service attended a webinar ran by the independent broker Gallaghers' on the results of its annual review of the scheme administrators report, Within the 2021/2022 accounts, the scheme administrator indicated a profit of £nil for the company in the past year (2020/2021 profit was £nil). Grant Thornton remained as external auditors. Some of the key comments outlined in the scheme administrator's strategic review were:

    a. The current accumulated loss on the balance sheet was £nil as it was in 2020/1.
    b. There had been a decline in the market value of MMI's investment portfolio, driven by rising interest rates and the war in Ukraine.
    c. The gross reserves for claims had reduced by slightly more than expected during the year, resulting in a release to profit.
    d. There had been reductions in both the number of outstanding claims and the number of new claims reported in a year.
    e. No further increases to the levy (from 25%) were currently anticipated. However, as always this was caveated with, 'Due to the latent nature of some claims, MMI's independent actuaries (KPMG) projections are subject to substantial uncertainty and it is not possible to guarantee that the total levy percentage of 25% will remain sufficient'.

24. The position is kept under review especially in terms of the aforementioned Uninsured Loss Fund (paragraph 18).

Claims handling

25. The Insurance Service employs experienced claims negotiators who handle all liability claims brought against Leicestershire County Council up to the delegated authority limits as agreed with the insurer.

26. The claims handling delegated authority extends to full 'cradle to grave' claims handling of public and employers liability claims. This includes investigation, determining legal liability and repudiation or settlement of the claim as appropriate. The Council's claims team, its Legal Services team, external solicitors and other approved experts, work in partnership to defend litigated claims.

27. **Appendix 1** provides information on Council claims over the last year. From the information provided key points to note are highlighted: -

    A. Over the year new claims (especially public liability – highways) peak in the winter (Q4) and tail off over summer (Q2 and Q3)
    B. Total claims open is fairly even across the year
    C. Only a small number of claims are closed with a payment to a claimant

D. Repudiation percentage is high most often 90%+. This reflects the Service's rigour in assessing and defending claims

Mitigating risks

28. Whilst its core business is arranging appropriate cover and defending claims, the Service has a key role to play in advising departments on mitigating risks in their service provision. The results of the 2022 Corporate Services Satisfaction Survey returned some very positive scores for the Service as follows: -

Type of support	Very satisfied (%)	Somewhat satisfied (%)
Advising on insurance issues	78	22
Knowledge of staff	81	19
Helpfulness of staff	81	19
Responsiveness	72	28
Quality of support/output provided	75	25
Communication	78	22
Overall experience last 12 months	67	33

29. Some examples of advice and interaction assisting risk mitigation are shown in **Appendix 2**.

Resource Implications

30. The work of the Insurance Service helps to protect the Council's assets (and the public purse) by determining an appropriate mix of risk financing methods, defending claims against the Council, and assisting departments with their service risk mitigations.

Equality Implications

31. There are **no specific** equality and human rights implications contained within the annual summary of work undertaken.

Human Rights Implications

32. There are no human rights implications arising from this report.

Recommendations

33. That the Committee **notes** the Insurance Service annual report for 2022-23.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Local Issues Alert Procedure

None

Officer to Contact

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List of Appendices

Appendix 1	LCC Claims profile 2022-23
Appendix 2	Examples of advice and interaction assisting risk mitigation (2022-23)

LCC Claims Profile 2022-23

Appendix 1

OPERATIONAL	INSURANCE CLASSES	CLIENT	OPERATIONAL (DETAIL)	Q1 (Apr, May, Jun 22)	Q2 (Jul, Aug, Sep 22)	Q3 (Oct, Nov, Dec 22)	Q4 (Jan, Feb, Mar 23)
Number new cases	(ALL CLASSES)	LCC	**Number of new claims or incidents entered on the system (NOTE A)**	**105**	**71**	**74**	**149**
		LCC EL		10	1	1	1
		LCC PL		76	49	54	121
		LCC OI		1	1	0	0
		LCC MOTOR		17	18	17	26
		LCC OTHER		1	2	2	1
Number of open cases	(ALL CLASSES)	LCC	**Current total number of open claims and incidents (NOTE B)**	**456**	**411**	**385**	**427**
		LCC EL		38	36	34	28
		LCC PL		356	315	290	336
		LCC OI		4	4	3	3
		LCC MOTOR		54	50	51	57
		LCC OTHER		4	6	7	3
Number of cases closed	(ALL CLASSES)	LCC	**Number of claims or incidents closed on the system**	**121**	**121**	**102**	**100**
		LCC EL		3	3	3	4
		LCC PL		49	93	81	73
		LCC OI		0	1	1	0
		LCC MOTOR		44	24	16	20
		LCC OTHER		25	0	1	3
Number claimants paid	(EL & PL & OI)	LCC & other	**Number of claims or incidents closed with a payment to claimant (NOTE C)**	**7**	**8**	**8**	**8**
Number claimants paid at NIL	(EL & PL & OI)	LCC & other	**Number of claims or incidents closed with NIL paid to claimant**	**50**	**93**	**79**	**72**
Total claimants (paid + paid at NIL)	(EL & PL & OI)	LCC & other	**Total claims or incidents closed (paid + paid at NIL)**	**57**	**101**	**87**	**80**
% claimants paid at NIL	(EL & PL & OI)	LCC & other	**Percentage of claims or incidents closed with NIL paid to claimant (NOTE D)**	**88%**	**92%**	**91%**	**90%**

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Appendix 2

Examples of advice and interaction assisting risk mitigation (2022-23)

- Regular attendance at E&T Management Team to discuss claims data, projects (e.g. Electric vehicle charging), areas of concerns, new Highways Policy any questions on schemes, Ash die back

- Food training support - claims process, court process, team work risk assessment, claims data with costing question and answer session

- In conjunction with H & S and Legal attended every DMT to discuss the Oadby barrier incident and possible consequences for each dept along with reminder of notifiable conditions

- Ran training with H & S re report writing and protecting LCC position on a claim

- Continuous working with E&T fleet team updating processes for quicker better processing of claims and financial implication of hire costs etc

- Supporting colleagues across all services (especially in conjunction with legal and commissioning support) with a number of procurements to set appropriate insurance limits in order to protect LCC including: -

    - Highways – Melton Bypass
    - Decarbonisation Framework
    - Zouch Bridge Works
    - SEN Diagnostic Online Tool
    - Parent Pay (School Food Support)
    - Biodiversity Net Gain Contract

- Supporting environmental risk issues ensuring contractors adequately covered for invasive tests, survey works, removal of effluent discharge etc

- Supporting Public Health Procurements including
    - Workplace Health Programme
    - 11-19 Health Outcomes
    - Substance Misuse Project
    - Health Checks in the Community

- Supporting colleagues with regards to new school projects by engaging with insurers to make sure that any new builds are future proofed so that insurers requirements are discussed and considered before work commences

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 22ND SEPTEMBER 2023

REPORT OF THE DIRECTOR OF LAW AND GOVERNANCE

ANNUAL REPORT ON THE OPERATION OF THE MEMBERS' CODE OF CONDUCT 2022/23

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 the decision of this Committee on 24th September 2012.

Background

2. An updated Members' Code of Conduct was adopted at the County Council meeting held on 1st December 2021 following the introduction of a model Code developed by the LGA in response to the recommendations made by the Committee on Standards in Public Life in 2019.

3. This Committee has responsibility for dealing with matters relating to the Code. Detailed arrangements for dealing with allegations against Members were considered and agreed by this Committee on 24th September 2012. These were subsequently reviewed and updated by the Director, following Consultation with the Chairman and Spokespersons of this Committee, in September 2017. These arrangements were again reviewed in 2021 alongside the introduction of the new Code but at that time no changes were considered necessary. Following further assessment, a small change is now proposed as set out in the report below.

Complaints received under the Members' Code of Conduct

5. Since July 2022 there have been 8 complaints (relating to 6 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**	
	2021/22	**2022/23**
Complaint withdrawn / not progressed by complainant	0	1 (Complaint out of scope and complainant refused to allow detail to be shared with member).
Outcome of complaint	**Number of members**	
	2021/22	**2022/23**
Complaint outside of the scope of the Code i.e. relating to the activities of a the member in their private capacity	3	5 (2 in relation to one member from the same complainant)
Complaint did not meet threshold for further investigation as set out in the 'initial test'	2 (arising from one complainant and the same events relating to 2 members)	0
Complaint resolved informally (and advice offered)	2	1
Complaint considered by Member conduct panel -	1 -No finding of breach following independent investigation	0
Complaints being considered at the initial stage (as at 5 September 2023)	0	0

6. There are no particular trends in relation to the subject matter or in relation to the members who have been the subject of a complaint. All of the complaints have been by members of the public.

7. In all cases, the complaints have been referred by the Monitoring Officer to one of the Independent Persons appointed by the County Council under the provisions of the Localism Act 2011 for the purposes of giving a view on complaints submitted.

Staff Survey

8. The results of the biennial staff survey undertaken earlier this year are being reviewed and for the first time since 2012 the survey has asked questions about staff engagement with Members. Any issues arising from this exercise will be reported to the Committee at the appropriate point.

Independent Persons

9. The County Council appointed six Independent Persons in 2020 and their term of office will expire in September 2024. Over the next 12 months therefore arrangements will need to be made to recruit or reappoint the Independent Persons since this is a statutory requirement. This exercise will be undertaken through an Independent Persons Appointment Committee which will make recommendations to the Constitution Committee on the appointments.

10. The Independent Persons have attended a training session on the operation of the complaints process and best practice in managing complaints. The training was provided by an independent specialist provider (Hoey Ainscough Associated Ltd) and was well received.

11. An informal meeting takes place with the Independent Persons (IPs) twice a year at which there is an opportunity to reflect on collective learning and best practice and to update the IPs on any issues arising.

12. It is intended that a protocol for engagement with the IPs is developed and introduced along the lines of the draft attached as an Appendix to this report which will shortly be subject to consultation with the IPs. Once finalised, it is proposed that this will be appended to the Procedure for Handling Member Conduct Complaints.

Recommendation

13. The Committee is asked to note the contents of this report and provide any comments or observations on the draft protocol.

Equality and Human Rights Implications

14. None arising from this report.

Background papers

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

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix - Draft IP protocol

Appendix

DRAFT PROTOCOL RELATING TO THE INDEPENDENT PERSONS UNDER s28(7) LOCALISM ACT 2011.

This protocol is to make clear the relationships between the Independent Person (IP) and the County Council in the process of handling complaints under the Members' Code of Conduct and the wider promotion of standards. Its aim is to ensure that responsibility is clear at each stage of the process and set out the expectations and rights of the IP.

It is written with the following assumptions and in line with the LGA Guidance on Member Model Code of Conduct Complaints Handling:

- The Monitoring Officer (MO) is taking the decisions whether or not any further action should be taken on an initial complaint.
- The IP is consulted on allegations by the MO before a decision is reached as to whether any further action is needed in line with the good practice recommendation of the Committee on Standards in Public Life.
- Matters where a breach of the Code are found following investigation may be referred to a Member Conduct Panel for determination.

Considering complaints

The MO will seek the views of the IP before reaching a decision on whether any further action should be taken on a complaint.

Where the IP meets in person with the MO to discuss the case, they will nevertheless record their views in writing for the record after the meeting.

When issuing the decision letter, the MO will record that the IP has been consulted and that their views have been taken into account. Where the view of the MO and IP differ, the MO will record the reasons for following a particular course. The letter will make clear that it is the MO and not the IP who is the decision-maker.

Informal resolution

The MO will seek the views of the IP before dealing with an allegation through informal resolution.

If the informal action which is part of the informal resolution has not been taken within the time limit set by the MO, or if they are not satisfied with the informal action taken the MO will consult with the IP before notifying the relevant parties of whether the matter is nevertheless closed or whether they intend to take further action.

When informal resolution has been completed the MO will notify the IP.

Matters under investigation

Where the MO is considering commissioning an investigation through an external independent organisation or individual, the MO may consult the IP before reaching a decision.

An elected member who is the subject of a complaint may seek the views of the IP. A subject member wishing to contact the IP should do so via the MO who will provide contact details or arrange for a meeting to take place.

Where the IP has given views to the subject member, those views shall be put in writing following agreement with the subject member and made available to all relevant parties in the case.

The IP will agree in advance with the subject member rules of confidentiality but it will be up to the IP to decide whether matters should remain confidential and, even where there is confidential information disclosed to the IP, there should be a public statement that confidential matters were discussed.

During the course of the investigation, it may be necessary for the MO to reconsider if the investigation remains the right course of action. The MO will consult with the IP before deciding to defer or end an investigation. If a decision is taken to begin the investigation again the MO will notify the IP.

The MO should have agreed timelines for delivery of the investigation report. Where it is likely that the initial timeline cannot be met the MO should have a mechanism to agree and record any extension and may consult with the IP.

The investigator will share their draft report with IP before it is sent to the relevant parties. The IP should satisfy themself that the investigation is of an acceptable standard and meets the scope of the complaint.

The MO should issue the final report to the IP.

The MO may consult the IP at any stage during the process, particularly on matters which relate to the procedures for handling complaints.

Hearings and determinations

Where the conclusion of an investigation report is that there has been no breach of the Code of Conduct the MO may decide to take no further action. The MO must seek the views of the IP before making this decision.

If the MO considers that there has been a breach of the Code they will decide what action, if any, to take and notify the relevant parties. For example, they may decide to seek an informal resolution at this stage or decide that the matter is merely a technical breach and in doing so the MO will consult with the IP.

Where a matter has been referred to a Member Conduct Panel for determination, the Panel must seek the views of the IP before reaching its decision. The IP's views should be recorded in any decision notice and, where those views do not reflect the final outcome reasons must be given for any differences. However, it must be clear that it is the Member Conduct Panel and not the IP who is the decision-maker. The IP's views may include views on any relevant sanctions where a breach of the Code has been found.

The IP will not retire with the committee when the committee is deliberating but must give their views to all parties.

The IP shall not make any comments to the media on any matter without prior agreement of the MO which will be informed by the Member Conduct panel. Any requests for comments from media shall be referred in the first instance to the MO who will refer these to the Chair of the Member Conduct Panel for discussion.

The IP may be requested by the MO or Member Conduct Panel to assist in mediation or conciliation in order to resolve complaints where that is considered the most appropriate course of action.

The IP may be requested by the MO or standards committee to assist in any training on conduct issues as appropriate.

<u>Relationship with the Member Conduct Panel</u>

The IP shall receive agendas and minutes of all meetings of the Member Conduct Panel in any case in which they are involved and shall be entitled to request for items to be added to the agenda with the agreement of the chair and to speak at the committee.

The IP is not a member of the Panel and therefore is not part of the formal decision - making and cannot vote on any matters put to the meeting. They may be invited to observe confidential matters with the agreement of the chair.

<u>Other matters</u>

The IP has the right to raise any concerns about standards issues or implementation of the process with the Council's Chief Executive if it is not possible to resolve these issues with the MO.

The Council, through its Corporate Governance Committee and MO, is responsible for ensuring that the council meets its duty to promote and maintain high standards of conduct by elected members. However, the IP has the right to be consulted on any proposed changes to the Code of Conduct.

The IP has the right of access to any confidential information required to carry out their role. Access to such information and its storage shall be agreed with the MO.

The IP has the right of access to council buildings in order to carry out their role. Access should be agreed in advance with the MO.

The MO will meet at least twice per year to review relevant matters.

The IP will agree to sign a code of conduct, including a register of interests to be held by the MO and will declare any relevant interests in relation to cases to the MO who will decide whether the interest conflicts them out of involvement in the matter.

The IP is considered to be an office-holder of the Council in accordance with the duty under s28(7) of the Localism Act 2011 and is therefore entitled to be covered by the council's indemnity insurance.

Agenda Item 9

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 22 SEPTEMBER 2023

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)
   - Emerging risk - Reinforced Autoclaved Aerated Concrete (RAAC)
   - HM Government National Risk Register 2023 edition
   - Counter fraud update

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 longer 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. Updates to the current risks on the CRR (last presented to the Committee on 26 May 2023), are shown in Appendix A. Risks which have been removed in the last two years, and a brief reminder of the risk scoring process are at the end of the appendix.

6. Movements since the CRR was last presented are detailed below: -

Risk(s) added

3.8 Chief Executives

If there is a failure to provide appropriate strategic and operational business intelligence then the council's policy and strategy will not be evidence-led and day-to-day service delivery, costs and reputation may be negatively impacted, including meeting statutory requirements.

Impact 4 Likelihood 4 Risk 16

7.8 All

If we fail to develop, implement and maintain robust health & safety systems then there is a risk of breach and potentially dangerous occurrences.

Impact 5 Likelihood 3 Risk 15

9.5 Environment and Transport

If there are significant changes / clarifications to legislation, policy or guidance then performance could be impacted and cost increases within waste disposal.

Impact 4 Likelihood 4 Risk 16

Risk(s) Removed

B – All

If because of the ongoing war in Ukraine, the Homes for Ukraine Scheme continues beyond its original planned duration, increasing numbers of hosts are likely to end their sponsorships and refugees (or guests) are expected to encounter challenges in securing new sponsors or privately-rented accommodation, then the cost and service pressures on the Council and partners are likely to increase, safeguarding issues might increase and there will be a reputation risk if the scheme fails to provide the support guests require. Cost of living pressures are exacerbating this issue through both in relation to hosts and guests.

The impact and likelihood score have been reduced due to established processes and a more stabilised scheme. The risk will be managed within the project team in CFS.

Risk(s) Amended

3.6 Corporate Resources

Change from: If the planned improvements and developments to the ORACLE Fusion payroll and HR system and working processes fail to be implemented on time and in full, then the Council (and its partner Nottingham City Council) could face claims, reputational damage, potential loss of income if traded contracts are withdrawn and a negative opinion from auditors.

Change to: If the updates to the system do not meet the County Council's requirements, then there is a risk of work arounds continuing and efficiencies not being delivered

Emerging risk - Reinforced Autoclaved Aerated Concrete (RAAC)

Timeline

7. In December 2018, the Department for Education (DfE) made building owners aware of a recent building component failure in a property constructed using Reinforced Autoclaved Aerated Concrete (RAAC). Then in May 2019, the Standing Committee on Structural Safety (SCOSS) raised an alert to emphasise the potential risks from such construction, highlighting the failure of a RAAC panel roof construction within an operational school. This collapse was sudden with no apparent warning.

8. In February 2019, three months before the SCOSS alert, the Council's Property & Occupants Risk Management Group (P&ORMG) had pro-actively discussed RAAC risks and officers had begun to identify and survey relevant LCC buildings and ultimately there were no schools identified with RAAC. By May a decision had been taken by P&ORMG to also write to academies to alert them to the issues with RAAC..

9. The DfE issued another alert to academies and local authorities in December 2022 with an extended date range to review. Over the last few months, after visits by surveyors and structural engineering inspections, there remained no evidence of RAAC in LCC maintained schools.

10 Once again, P&ORMG had taken a decision to write to academies before they broke up in the summer of 2023 including links to the latest DfE guidance and the extended date range of buildings potentially in scope. LCC had requested academies provide evidence of actions taken to assess the risk and identify any RAAC in their buildings by no later than 30th September 2023.

Recent action and next steps

11. An all member briefing (containing most of the above and some further detail) was issued with further weekly briefings planned.

12. Since the Council became aware of RAAC vulnerabilities, surveyors have been actively looking for the presence of RAAC in the corporate estate during the 5

yearly cyclical condition surveys of all buildings. The corporate estate is now undergoing a targeted review. Any buildings that have not been surveyed in the last three years and fall within the new date range of buildings that may contain RAAC and have concrete plank construction will be subject to a further inspections.

13. Adults and children's third party providers have been written to providing guidance on requirements and where to seek advice should providers have concerns.

14. Further guidance is awaited from the Government and will be addressed as a priority when issued.

HM Government National Risk Register 2023 edition

15. The 2023 National Risk Register (NRR) is the external version of the National Security Risk Assessment, which is the government's assessment of the most serious risks facing the UK. It provides the government's updated assessment of the likelihood and potential impact of a broad range of risks that may directly affect the UK and its interests. This version of the NRR is more transparent than ever before. It reflects the principles of the UK Government Resilience Framework to communicate risk information in a more open and accessible way, to ensure shared understanding of and greater preparedness for risks.

16. Risks are assessed in importance according to factors such as fatalities and cost, and probability determined using data modelling and analysis.

17. The risks that meet the threshold for inclusion in the NRR would have a substantial impact on the UK's safety, security and/or critical systems at a national level. The NRR includes information about 89 risks, within 9 risk themes – although several risks could be categorised under more than one theme. These are: -

    - Terrorism
    - Cyber
    - State threats
    - Geographic and diplomatic
    - Accidents and systems failures
    - Natural and environmental hazards
    - Human, animal and plant health
    - Societal
    - Conflict and instability

18. To ensure the UK is prepared for a broad range of scenarios, the NRR sets out a 'reasonable worst-case scenario' for each risk. These scenarios are not a prediction of what is most likely to happen, instead they represent the worst plausible manifestation of that particular risk (once highly unlikely variations have been discounted). This enables relevant bodies to undertake proportionate planning. The NRR includes information on the capabilities required to respond to and recover from the emergency, should the risk materialise.

19. The new Register, the first since 2020, also places a chance of another pandemic at between 5 per cent and 25 per cent. At its meeting on 12 June 2020, Members of the Corporate Governance Committee had noted that information documents received in recent times regarding global risks did not identify the risk of a global pandemic - focus having been on cyber security and environmental risks.

20. The NRR has been distributed to Chief Officers and Resilience Officers for management teams to undertake a scan of the risks and question: -

    a) Which are relevant to our organisation – what could happen?
    b) How might these affect the achievement of our strategic objectives?
    c) Do we have any contingency plans in place to mitigate the impact should these occur?
    d) What work can we instigate now to ensure that we are better prepared?
    e) What resources can we put to these mitigations that will strengthen resilience?
    f) How can we strengthen resilience coordination across the organisation?
    g) When should we review these plans to ensure they remain relevant?

21. The Resilience and Business Continuity Team will support Departments to assess the impact on their services against the NRR. The outcomes of this exercise will be reported to a future Corporate Governance Committee.

22. The contents of the NRR are attached as appendix B, for a full version, please see https://www.gov.uk/government/publications/national-risk-register-2023

Counter fraud update

National Fraud Initiative 2022/23

23. The National Fraud Initiative (NFI) is a mandatory data-matching exercise co-ordinated by the Cabinet Office, which seeks to identify potential anomalies and fraud through matching the Council's data sets with those of other mandatory participants, including the Department for Work and Pensions deceased persons data. Output from NFI 2022/23 was released back to local authorities in February 2023. Audit work co-ordinating NFI 2022/23 is now complete.

24. Matches returned to participants do not necessarily indicate fraud or error but are simply risk-based anomalies considered worthy of further investigation. A summary of the output in relation to Leicestershire County Council is contained in Appendix C.

25. NFI work identified four cases where pension payments were continuing to deceased persons. These four pensions were immediately suspended. All four cases have been passed over to the Pensions Section for recovery, where possible. The recoverable overpayments total £5,970. Moving forward, the Pensions Section has taken the decision to buy into an optional NFI service to match pensions' data against deceased persons' data on a six-monthly basis, to complement the standard two-yearly NFI cycle, in order that any deaths not

identified through normal business processes might be identified earlier in the process, thus mitigating the financial risk of write-off of any overpayments that end up being uncollectable.

26. NFI work identified a likely instance of blue badge fraud where an application for a blue badge (disabled person's parking permit) was made after what has now been established to be date of death of the individual concerned. The application was at the time duly processed in good faith and a blue badge issued. This case has been reported to Action Fraud under the Council's zero-tolerance approach to fraud.

27. NFI work identified a low-valued duplicate payment of £900 which has since been recovered. Ordinarily, the Council's payment systems are sufficiently sophisticated to identify possible duplicate payments through data matching of supplier names, dates, amounts, invoice numbers etc. This particular case was not identified as the two payments were made to different vendors, in this instance both to a barrister in a personal capacity and to that individual's overarching chambers.

28. NFI work identified a low-level indiscretion where an individual became involved in the processing of a one-off, low-valued, financial transaction to a company in which they had an interest. The transaction was confirmed through management to be valid and without specific cause for concern, but the individual in question should have removed themself from the transaction as it gave rise to a clear conflict of interests. The individual concerned has been reminded of their responsibilities regarding the formal declaration of any potential conflict of interests, the signing-off (approval) of such conflicts by management, and the modification of processes, e.g. commissioning and authorisation, to ensure there is sufficient independence.

29. Further work arising from the NFI surrounding potential conflicts of interest concluded that there is a lack of awareness amongst some staff regarding the Council's policy for the registration of interests, and specifically when potential conflicts of interest should be declared. This includes secondary employments. The Council's policy on registering potential conflicts of interest requires that employees must identify and disclose any actual or potential personal, financial, business, or other interest or close personal relationship which might reasonably be perceived as a conflict of interest. This concern has been brought to the attention of the Director of Law and Governance with a request that further comms should be issued to all staff clarifying the process of declaring secondary employments, business interests and other potential conflicts. The importance both of employees understanding when and how to make declarations and the role of line managers understanding how declarations made should be considered and in effect approved (or otherwise), cannot be overemphasised.

30. NFI work identified a large number of concessionary travel permits in circulation but where the permit holder is now deceased. Unlike with blue badges, where there is a reapplication process every three years, it is Council policy for concessionary travel permits to be *automatically* renewed upon expiry. Therefore, if the Council does not become routinely aware of a death, e.g. from notification by family members, there is a likelihood that the individual's permit

will be automatically renewed, at a third-party processing cost to the Council. Suggestions have been made to move away from auto renewals to something more intelligence-led, e.g. auto-renewal only where there is evidence that the permit has been used recently.

31. Work is ongoing to strengthen the Council's procedures for identification of service user deaths. Families are not mandated to notify the Council of a death, although some do. We are in dialogue with a third-party provider to develop a mortality screening solution where the Council's data (blue badges, concessionary travel, residents' parking permits, adult social care services, pensions, etc.) can be matched in (almost) real-time to the General Register Office's (GRO) deceased persons data to identify deaths very early on in the process to enable Council services to be promptly cancelled and therefore to reduce the risk of a build-up of aged debt.

32. NFI work highlighted a VAT error (underpayment of VAT to HMRC of £4.3k). This has been duly corrected.

33. The NFI extends to both ESPO and the Leicestershire Pension Fund. Separate reports have been issued to respective governance streams summarising the work undertaken and outcomes.

Economic Crime and Corporate Transparency Bill 2022 – Failure to Prevent Fraud Offence

34. The Economic Crime and Corporate Transparency Bill 2022 has now passed through both the House of Commons and the House of Lords and is in its final stages before receiving Royal Assent and becoming an Act of Parliament.

35. The government is creating a new failure to prevent fraud corporate offence to hold organisations to account if they profit from fraud committed by their employees. Under the new offence, an organisation will be liable where a specified fraud offence is committed by an employee or agent, for the organisation's benefit, and the organisation did not have reasonable fraud prevention procedures in place. It does not need to be demonstrated that the organisation's management ordered or knew about the fraud.

36. The Council is within the scope of the new legislation. Subsequently, we have undertaken an internal risk assessment and consider that there is low risk due to the nature of its operations. The offence is created only where employee fraud directly benefits the organisation itself so is more geared to commercial sectors such as sales, e.g. corrupt sales practices leading to increased profits for the organisation concerned.

37. Additionally, organisations are likely to be able to avoid prosecution if they have *"reasonable procedures"* in place to prevent fraud. We have taken early steps to catalogue the wide range of counter fraud controls and processes in place within the Council to mitigate the risk of employee (insider) fraud. These include mandatory fraud awareness e-learning, a defined declaration process for conflicts of interests, a formal whistleblowing channel and the operation across the Council of a robust internal control environment.

38. If convicted, an organisation can receive an unlimited fine. Courts will take account of all the circumstances in deciding the appropriate level for a particular case. The fine is corporate, however, individual officers cannot be held personally liable under the new legislation. Individuals within organisations can already be prosecuted for committing, encouraging or assisting fraud but the new legislation will not be introducing individual liability for failure to prevent.

39. Further information can be found in the HM Government factsheet - Factsheet: failure to prevent fraud offence - GOV.UK (www.gov.uk)

Recommendations

40. 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;
c) Notes the updates regarding: -
   i. Emerging risk - Reinforced Autoclaved Aerated Concrete (RAAC)
   ii. HM Government National Risk Register 2023 edition
   iii. Counter Fraud

Resources Implications

None.

Equality Implications

None.

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, 28 January 2022, 13 May 2022, 30 September 2022, 21 November 2022, 26 January 2023, 16 March 2023 and 26 May 2023.
http://politics.leics.gov.uk/ieListMeetings.aspx?CommitteeId=434

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Appendices

Appendix A – Corporate Risk Register Update (September 2023)
Appendix B – Extract from HM Government National Risk Register 2023 edition
Appendix C – National Fraud Initiative (NFI) outputs 2022/23

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CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
Cost of Living Crisis										
C	ALL	If the current cost of living crisis continues and even intensifies without any UK Government interventions, then the people and businesses of Leicestershire as a whole will be significantly impacted, and the County Council will have to take some difficult decisions.	5	5	25	5	2	10	Although the level of support given to residents for the cost of living crisis continues, there is still a risk that when the funding stops the impact on the council will be significant which will result in the County Council having to take some difficult decisions.	Expected to remain high/red
1. Medium Term Financial Strategy										
1.1	ALL	If we fail to achieve the agreed financial MTFS targets for income generation then additional savings will need to be made.	5	5	25	5	3	15	The Council's financial position continues to be extremely challenging. A £9m overspend is being forecast for the following year driven by rising costs of both children's and adult social care (unit costs of placements more so than numbers). Inflation is taking its toll and as yet the full impact on the financial position is yet to unwind. A revenue budget shortfall of £90m is expected by 2026/27 without serious further savings measures being implemented and additional support from Government. Increasingly, many other authorities, including some traditionally considered to be well run financially, are stating that they are moving into section 114 territory. In terms of capital, there is no room for additional schemes and programmes will be restricted to those funded from capital grant and external funding only. We continue to have ongoing dialogue with Government ministers to make our case and seek additional financial support. It is imperative that savings already under consideration are progressed and delivered and further efforts are taken to identify new savings areas. Growth in demand for services needs to be scrutinised to ensure projections are robust and that everything that can be done to keep growth to a minimum is being done. If progress towards resolving the revenue position is limited, spend controls providing greater scrutiny on individual budgetary decisions will need to be put in place.	Expected to remain high/red
1.5	C&FS	Children's Social Care 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.	5	5	25	4	4	16	The number of children in care remains stable overall, however there has been an increase in our children requiring residential provision and in the last 3 months we have accommodated a number of children under 10 in residential. This is due to presenting need and is an appropriate use of residential - this is requiring additional staffing for the initial period of time and then to be reviewed. We track high cost placements which include 2:1 and solo staffing for our most complex children. Residential review group (RRG) is continuing to focus on step down from residential. This is progressing with our older cohort 16-17 year olds. However, our younger cohort of children who require a family based placement, the sufficiency in the market is impacting on our progression of plans. We are looking at different ways of engaging the Independent Fostering Authority (IFA) market to step our younger children out of residential care. We are mindful that we have had an increase in younger children being placed in residential because of sufficiency and not need. The recruitment of foster carers continues to be difficult nationally, and whilst LCC are having challenges we are achieving stronger results than some regional and comparative authorities. Still, it is unlikely that the target of 25 will be met this year.	Expected to remain high/red
1.6	C&FS	Special Educational Needs 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.	5	5	25	4	4	16	Transforming Send and Inclusion in Leicestershire (TSIL) programme well underway - there are 12 workstreams, with 2 through design and 2 more to next phase Aim of programme remains to reduce deficit on High Needs Block.	Expected to remain high/red
1.7	CR	If the Council is not compliant with the HMRC IR35 regulations regarding the employment status for tax of self-employed personnel, then there is a risk of backdated underpaid tax and NI, interest and large financial penalties.	5	4	20	4	3	12	• Issues identified to monitor compliance including – - IR35 tracking when contracted agency is not used. - Employment status for tax identification for both sole traders and personal services companies from the start of work including short term/informal/non-contracted appointments. - Completion of accurate IR35 monthly spreadsheet by service areas within LCC departments • National Driver Offender Retraining Scheme (NDORS) employment status classification being reviewed.	Expected to remain high/red

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
1.9	ALL	If the immigration status of refugees and asylum seekers (including 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.	5	5	25	4	3	12	A LLR wide multi-agency meeting continues to meet to coordinate a system wide approach to managing migration, resettlement and asylum. The focus is to understand and manage current demand on services and plan ahead for future challenges. We now have 90 UASC Care and 114 UASC Care Leavers. This is a significant increase and is due to the increasing numbers coming through National Transfer Scheme (NTS) and the dispersal hotel route. In June we had 20 requests for assessment from the dispersal hotel and also currently have 15 Letter Before Action which is a legal challenge to our Brief Assessment. Financially this pattern has two significant impacts, referrals from dispersal hotels does not provide the enhanced payment as through NTS. Also our cohort of Care Leavers is growing faster than our Children In Care due to children arriving ages 16/17 and therefore becoming a care leaver within a short period of time, incurring significant support costs in line with our duties to care leavers. This duty continues until the young person is 25 or the Home Office makes a determination decision.	⟺ Expected to remain high/red
1.11	CE	If transition to the operational stage were not enabled, taking account of financial, governance, HR and other considerations, then the County Council would not be fulfilling its role as lead authority and accountable body for the East Midlands Freeport.	5	3	15	5	2	10	The East Midlands Freeport has been operational since March 2023 following final approval by the Government of its business case, but the Freeport's incorporation as a company, scheduled for November 2023, is awaiting clarification from DLUHC and the business rate collection authorities on some technical issues which affect all Freeports. In its role as lead authority and accountable body for the Freeport, the County Council continues to assist the Freeport Board and partners in the process of company incorporation.	⇩ Expected to move to medium/amber
1.12	CE	If the Council fails to maximise developer contributions by shaping local plan policies, negotiating S106 agreements and pro-active site monitoring, then there could be a failure to secure funding for County Council infrastructure projects (such as transport and schools).	4	4	16	4	3	12	The Council continues to be successful in securing monies through new developments but there are a number of Developers seeking to renegotiate existing S106 Agreements on viability grounds. Viability issues are likely to become more prominent with the introduction of Biodiversity net gain planning and escalating costs.	⟺ Expected to remain high/red
2. Health & Social Care Integration										
2.4	A&C C&FS PH	If health and care partners fail to work together to address the impact of system pressures effectively, there is a risk of an unsustainable demand for care services and a risk to the quality of those services to meet need	4	4	16	5	2	10	A&C Significantly reduced pressure on ambulance handovers and pressure on Emergency Departments, the Council is managing its part of the system (discharge process) very well. Continuing to convert Pathway 1 (Independent Sector) into P1 (Homecare Assessment and Reablement Team (HART)) - focusing on lower level to build relationships and support increase in HART new starts, before progressing to more complex P2 cases. Progress remains good in terms of discharge efficiency from social care perspective - generally maintaining single figure waits for discharge. Ambulance waits no longer a key driver of delays. National data shows we are high performing in this area. Discharge grant funding previously allocated to support development of intake model for intermediate care is being allocated for 2-year period as part of BCF - this funding will enhance/support medium-term delivery. This includes further support to the ongoing MDT pilot which is currently working to improve community processes and timescales across HART and Therapy. Following the Discharge to assess Newton Europe work 3 workstreams are now in place and an intermediate care steering is now in place. Focus on work for Intake model for home care. Reduced use of independent beds to support discharge. Improved decision making. Continuous recruitment into reablement services is underway and working well for implementation of the intake model. C&FS Health funding into Department still doesn't equate to spend, therefore department needs to formulate a plan to engage Health in providing adequate funding both in High Needs and Social Care. PH No Update.	⇩ Expected to move to medium/amber

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
3. ICT, Information Security										
3.6	CR	If the updates to the ORACLE Fusion system do not meet the County Council's requirements, then there is a risk of work arounds continuing and efficiencies not being delivered.	4	4	16	3	4	12	• Development plan in place for Fusion for 2023/24, which includes the recommendations from the NAMOS Solutions (support partner) report. Some risks to delivery, i.e. BAU, partner projects. • Work is well underway on improvements to the HR module and an independent health check of the system has been carried out and a report received. • New recruitment module implemented – smooth launch and hypercare worked well.	Expected to move to medium/amber
3.7	CR	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.	4	4	16	3	4	12	• Software firewall to be deployed on servers. Currently in test on 50 servers to assess impact of a wider rollout. • PSN compliance achieved. • Business Continuity awareness sessions almost complete across the organisation. Learning points from testing reported directly to Resilience Planning Group. • Disaster Recovery (DR) testing ongoing.	Expected to remain high/red
3.8	CE	If there is a failure to provide appropriate strategic and operational business intelligence then the council's policy and strategy will not be evidence-led and day-to-day service delivery, costs and reputation may be negatively impacted, including meeting statutory requirements.	4 NEW	4	16	4	2	8	• Improved data infrastructure and necessary culture change to further drive evidence-based decision making in the council. • Corporate Data Strategy Review underway, but progress is slower than hoped with data infrastructure/architecture not being addressed at the pace required. • Capacity and data architecture/infrastructure is a concern as the Business Intelligence (BI) data server is reaching capacity and some processes are starting to fail. No capacity to take on new datasets/systems. • Unprecedented levels of demand due to system changes, statutory changes, and large-scale transformation projects. • Options for interim measures and longer-term solution (to be informed by the Data Strategy) are being explored. A business case for investment is being developed. • Limited capacity for scale of change (particularly in BI Development Team) so external support and external architecture skills/advice will be required.	Expected to remain high/red
4. Commissioning & Procurement										
4.2	E&T	If Arriva is successful in its concessionary travel appeal or the City in its challenge on the methodology of reimbursing operators then reimbursement costs for the scheme could increase.	5	3	15	3	3	9	The risk's financial and relationship impacts have significantly reduced and our exposure to unaffordable financial impacts are minimal. However the County and City Councils have still to reach agreement in principle, of methodology and exact costs. The County are currently awaiting written confirmation on figures from the City by 15th September. Once agreement has been reached they will present to Arriva for consideration. Agreement to retain on the Corporate Risk Register until resolution.	Expected to move to medium/amber
4.3	E&T	If bus operators significantly change services due to wider external or economic pressures then there could be substantial impacts on communities accessing essential services and lead to required intervention under our PT Policy & Strategy.	4 (Decreased from 20)	4	16	4	4	16	The post covid bus market continues to be fragile with recovery challenging and slow. However, Government are driving forward a number of initiatives such as an extension of the £2 fare cap, promotion of concessionary travel use and Bus Service Improvement Plans Plus (BSIP+) funding for local transport authorities to support and protect services. The immediate impact has been reduced and these initiatives will help to ease pressure in the short term (12-24 months), but it is difficult to predict the longer term benefits and what the eventual new commercial market norm will be.	Expected to remain high/red

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
4.4	CR	If there is an actual or perceived breach of procurement guidelines then there may be a challenge which results in a financial penalty.	4	4	16	3	4	12	• Liaising with legal to finalise a process on how to deal with a challenge, create a protocol which will be subjected to a regular, on-going review. • There will be new legislation in 2023 which will demand more transparent decision making and improved monitoring of contracts (this has not yet been issued). It is likely that a new target operating model both for Commissioning Support Unit and departments will need to be developed to meet these significant new changes. Early comms will be sent out to managers highlighting forthcoming changes. Governance to be aligned with new legislation. • Four training sessions have been delivered to cover all departments and will now be offered on an ad hoc basis. • Further actions will be decided by the basis of the audit/assurance review.	⇔ Expected to remain high/red
4.5	E&T C&FS	If Special Educational Needs Assessments are delayed and Education, Health and Care Plans are not issued on time with appropriate placements for children identified, Transport Operations could be failing to provide a timely statutory service.	4	4	16	3	3	9	Tracking of EHCP progress with SENA reflects a general improvement in the key transition year groups, so this concern is reduced. The new area of concern relates to new assessments coming through the system, insufficiency of special places resulting in children being placed further away and impacting transport costs. The impact here is likely to be moderate and dispersed. Regular liaison between the service areas continues.	⇩ Expected to move to medium/amber
5. Safeguarding – category retired										
6. Category retired										
7. People										
7.1	CR (ALL)	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be impacted	4	4	16	3	4	12	• The support for management of absence cases remain in place. • IT and BI are looking into an interim solution to the ongoing challenges with reporting data. • Corporate communications planned.	⇔ Expected to remain high/red
7.2	ALL	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.	5 5	5 4	25 20	3 3	5 3	15 9	**Risks currently scoring 15 and above** <u>C&FS</u> Continued rigourous attention of R&R. Currently waiting impact of activity recruitment from social workers abroad - that aims to have a significant reduction in social worker vacancies, together with other schemes continuing; meaning newly qualified social workers are joining the workforce, should start to have an impact going into the next quarter. We are waiting for final proposals from Government in relation to the agency market and dependant on those proposals this could have a signficiant positive impact on social work R&R, which is targeted for April 2024. <u>CR</u> • Review and streamline current apprenticeship processes and develop a database to capture data more accurately than the Government's Digital Apprenticeship System. • Increase Levy spend by increasing the number of high value, higher level apprenticeships across the organisation • Align apprenticeships with other areas of development -Workforce Planning/Succession Planning/Talent Strategy/Recruitment and Retention (This will be picked up within the next People Strategy). •Further promote the breadth of apprenticeships available and their benefits, through the development of a comms plan, with a specific focus on events in the calendar, such as National Apprenticeship Week and Learning at Work Week. We will also use this as an opportunity to highlight that anyone can undertake an apprenticeship, currently the age range of apprentices at LCC is from 17 years to 61 years. • Explore other areas within the wider Leicestershire workforce where we can transfer levy funds to support and fund apprenticeships (We have been doing this for some time in the Early Years sector).	⇔ Expected to remain high/red

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score Impact	Current Risk Score Like lihood	Current Risk Score Risk Score	*Target Risk Score Impact	*Target Risk Score Like lihood	*Target Risk Score Risk Score	Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			4	5	20	3	3	9	E&T Insufficient resources still affecting a number of areas across the department particularly impacting on priority and front line services. Lots of activity including a renewed recruitment campaigns and working with Reed to bring in additional suppliers.	
			4	4	16	3	3	9	A&C • Occupational Therapy (OT) staff now hard to recruit despite ongoing recruitment in 22/23. Business case re MP to be submitted to HR. • Career pathways in place to support employee progression including social worker apprenticeships. New OT apprenticeship just launched. **Risks currently scoring below 15**	
			3	4	12	3	3	9	CE Ongoing recruitment problems mean a continued need for locum support (legal) - agreement to consider options within the Recruitment and Retention Incentives Policy for Hard-to-Fill Posts policy. The Department also has a recruitment board where all posts need to go before recruitment commences.	
7.3	A&C	If the Department fails to develop and maintain a stable, sustainable, and quality social care market to work with, then it may be unable to meet its statutory responsibilities.	5	4	20	5	2	10	The Council's intentions for use of the Market Sustainability and Improvement Fund (MSIF) have been communicated to DHSC and subsequently the capacity plan was submitted in June 2023. A focus on management of provider fee requests is being adopted via a multi-strand programme including a placement panel. MSIF will enhance residential rates and enable payment of a nursing band. An MSIF Workforce Fund has recently been announced for which the department is considering allocation. Commissioning priorities in development via the Transforming Commissioning Programme, a Programme Manager was recruited in August to support the programme. The Market Position Statement was published on the Council website on 15 June 2023, with content to be reviewed and revised every six months as a minimum through a defined process.	⇔ Expected to remain high/red
7.4	A&C	If LCC's Charging Policy is challenged on the principles of the Norfolk Ruling then there could be judicial review leading to significant financial impact and reputational damage.	5	3	15	3	4	12	Charging policy is being reviewed as part of the Financial Improvement Pathway work. Proposed changes will be discussed at DMT on the 06 September. The revised policy will go to Cabinet for approval early in 2024.	⇔ Expected to remain high/red

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
7.5	A&C	If there is continuing increase in demand for assessments (care needs and financial) then it may not be met by existing capacity.	4	5	20	3	2	6	Improvements to online financial assessments have been implemented. A video has been added to the website showing people how to complete the assessment. Automation opportunities on the finance pathway are being developed Bosworth, Oadby and Wigston (BOW)/Harborough Innovation site is now live. Ended relationship Partners For Change and managing innovation internally, a new Part Time Lead Practitioner resource will help lead this. Have three working groups, performance process & recording to drive the process forward. In December an evaluation of the pilot will take place, if approved full roll out of 3C's model from January 2024. We are measuring the impact of 3C's and learning from lessons learned. LCC data has been processed through Insights and this is being used in the diagnostics work on the financial improvement pathway to understand process pinch points and how assessments can be prioritised more effectively, the findings of the diagnostics will be reported to the Social Care Reform Board on 12 September to inform next steps. The Market Sustainability and Improvement Fund (MSIF) Workforce Fund is intended to enable local authorities to make tangible improvements to adult social care, in particular to increase social care capacity through increasing social care workforce capacity and retention, reducing social care waiting times and increasing fee rates paid to social care providers. The waiting list for Care Assessments is being addressed and fell to 1,048 at 31/07/23 from 1,575 in January 2023.	Expected to remain high/red
7.6	A&C	If A&C fail to provide robust evidence of good practice for the CQC inspectors, then this will result in a poor inspection outcome and incur reputational risk alongside extra resources and possible external governance to undertake any actions required to make the improvements necessary to fulfil statutory requirements.	5	3	15	5	1	5	The first version of the Self-Assessment is complete, with the first quarterly review and minor updates completed in July. Feedback from the reviews of the Self-Assessment and the Annual Conversation, will inform the next quarterly review taking place September 2023. An editorial group will be established to review the Self-Assessment on the agreed quarterly cycle. The Improvement Plan will be updated with actions recommended through the Annual Conversation, delivery of improvement activities will be monitored through agreed governance processes. Inspection Visit Action Plan/Checklist developed and approved by Workstream and Board. The action plan was successfully tested during EM ADASS Annual Conversation Visit (9th-10th August), minor amendments based on the experience and feedback from colleagues have been made. The action plan will be further informed by lessons from the CQC's 5 local authority inspection pilots taking place up to September 2023. Support material, such as a governance process for information requests and communications templates, is being developed and is expected to be approved by Workstream and Board September 2023. Recruitment of a permanent Quality Improvement Officer is complete and the Performance Manager role has been extended for a year - this provides the resources required for at least the next year.	Expected to remain high/red
7.7	C&FS	If current demand for EHC Needs Assessment and updating of EHCPs after annual review exceeds available capacity of staff within SEND Services (particularly educational psychology and SEN Officer) then this leaves the Council vulnerable to complaints of mal-administration with regards to statutory timescales. The situation is worsened by a lack of specialist placements which means that children with complex needs may not be placed in a timely way and hence may not receive the support to which they are entitled through their EHC Plan.	5	5	25	4	4	16	Work through the Transforming Send and Inclusion in Leicestershire (TSIL) programme will significantly increase our grip around case management and throughput accordingly. These changes are being implemented in a remodel of the SENA service in September '23. We are also taking a data-driven and evidence-led approach to fully understand the resource required in the SENA service to fully meet our statutory duties in a timely way which will be completed in late September. Sufficiency challenges remain for the 23/24 academic year, though the work that the service and TSIL programme has put it to place reduced the number of children without a placement from the previous academic year. There is already ongoing work in the TSIL programme to ensure we are ahead of the game for September 2024 to mitigate this risk, and are using the new platform of data through the TSIL programme to build a data-driven forecasting an sufficiency approach for subsequent years.	Expected to remain high/red
7.8	All	If we fail to develop, implement and maintain robust health & safety systems then there is a risk of breach and potential dangerous occurrences	5 NEW	3	15	4	2	8	Health and Safety has confirmed that the general trend in RIDDORs is rising. Action plan(s) are being developed with departments and Health and Safety colleagues.	Expected to move to medium/amber

CRR Risk No.	Dept./ Function	Risk Description	Current Risk Score			*Target Risk Score			Update August 2023	** Direction of Travel (Residual Risk Score over the next 12 months)
			Impact	Like lihood	Risk Score	Impact	Like lihood	Risk Score		
8. Business Continuity										
8.1	ALL	If suppliers of critical services do not have robust business continuity plans in place, then the Council may not be able to deliver services.	5	3	15	5	3	15	A process of reviewing Critical Suppliers Business Continuity (BC) plans is ongoing. The Resilience and Business Continuity Team, in partnership with contract managers are working with those providing 'low' level of assurance to implement changes. Feedback is given to providers whose plans return 'high' or 'medium' levels of assurance; departments are then encouraged to work with these providers to implement changes. Internal BC plans are being reviewed and plan holders consulted, there will be a renewed focus on loss of critical IT systems and widespread power outages.	⟺ Expected to remain high/red
9. Environment										
9.1	E&T	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	5	4	20	5	2	10	2023 survey currently underway with results expected in the Autumn. Specialist contractor has been appointed to undertake complex tree works and any surplus works not able to be carried out by the in-house operations team.	⟺ Expected to remain high/red
9.2	E&T	If there was a major issue which results in unplanned site closure (e.g. fire) then the Council may be unable to hold or dispose of waste	5	4	20	4	2	8	• The new waste treatment contract for Energy recovery at the Newhurst facility has commenced and waste is gradually being migrated to the new plant as it resolves teething issues and gets up to full speed. • Some remedial works are expected to be required at Loughborough.	⇩ Expected to move to medium/amber
9.4	E&T	If services do not take into account current and future climate change in their planning, they may be unable to respond adequately to the predicted impacts, leading to significantly higher financial implications and service disruption, as well as making future adaptation more costly.	4	5	20	4	3	12	Seeking additional staff resources to enable progress to be made. Recently submitted proposal with one of the local universities to access research support to undertake some tasks that would progress elements of developing a local climate adaptation strategy. LCC participating on Defra task and finish group developing a pilot template for local authority reporting on climate adaptation, which is providing useful insight into what will be expected by future reporting and what and how other local authorities are taking action on climate risks.	⟺ Expected to remain high/red
9.5	E&T	If there are significant changes / clarifications to legislation, policy or guidance then performance could be impacted and cost increases within waste disposal.	4 NEW	4	16	0	0	0	Increase in impact and therefore escalation to the CRR due to treatment of Bulky Waste - waste upholstered domestic seating (WUDS) containing persistent organic pollutants (POPs) - sofas etc. • Currently assessing financial and haulage impacts and how these can be minimised going forward.	⟺ Expected to remain high/red
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

*Target risk score - This is the desired score to be achieved after additional mitigation procedures/controls have taken place.

**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 SEPTEMBER 2021

CRR Risk No	Dept.	Risk Description	Current Risk Score	Reason	Date of Removal
2.3	All	Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.	16 I4/L4	This will be managed at department level.	05-Nov-21
1.3	CE	If the Council fails to maximise developer contributions, then there could be a failure to fund corporate infrastructure projects.	16 I4/L4	Merge two similar individual risks into one owned by the Head of Planning, Historic and Natural Environment.	05-Nov-21
1.1	CE	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.	16 I4/L4	Merge two similar individual risks into one owned by the Head of Planning, Historic and Natural Environment.	05-Nov-21
3.6	CR	If the ERP system cannot accommodate all of the Council's requirements, then it may delay implementation and extra resources will be required to develop work arounds	15 I5/L3	The system is live and although some teething problems remain these are being worked though and the risk will remain in the Department's register.	05-Nov-21
5.1	C&FS	Historical: 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 I5/L5	The inquiry has not identified any new issues or concerns for the council; The historic areas of concern referred to in the report are all known to LCC.	05-Nov-21
7.4	A&C	Social Care Reform, implementation of charging reform and assurance process	25 I5/L5	The considerable financial risk we faced with Charging reform aspect of Social Care Reform is now delayed to 2025. The most significant of the risks which remain is around the CQC Assurance process which is covered in risk 7.6.	06-Jan-23
A	ALL	If the Council does not on an ongoing basis plan for, prepare and respond to current and future consequences of the COVID 19 pandemic, then the Council and its communities could suffer long lasting economic, environmental, societal, technological challenges and missed opportunities.	12 I4/L3	The World Health Organisation has downscaled its COVID risk and any impacts on the County Council will be managed by departments.	26-May-23
B	ALL	If because of the ongoing war in Ukraine, the Homes for Ukraine Scheme continues beyond its original planned duration, increasing numbers of hosts are likely to end their sponsorships and refugees (or guests) are expected to encounter challenges in securing new sponsors or privately-rented accommodation, then the cost and service pressures on the Council and partners are likely to increase, safeguarding issues might increase and there will be a reputation risk if the scheme fails to provide the support guests require. Cost of living pressures are exacerbating this issue through both in relation to hosts and guests.	9 I4/L3	The impact and likelihood score have been reduced and the risk will be managed within the project team in CFS.	22-Sep-23

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss *
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	<£50k
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	£50k-£250k Minimal effect on budget/cost
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	£250k - £500k Small increase on budget/cost: Handled within the team/service
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	£500-£750k. Significant increase in budget/cost. Service budgets exceeded
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers	>£750k Large increase on budget/cost. Impact on whole council

* Note that a different financial rating is used for the pension fund investments

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

Risk Scoring Matrix

Impact					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1	2	3	4	5
	Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/ Likely	Almost certain

Likelihood*

*(Likelihood of risk occurring over lifetime of objective (i.e. 12 months)

National Risk Register

2023 edition

HM Government

CONTENTS

CONTENTS

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Appendix C

National Fraud Initiative (NFI) outputs 2022/23

Report Number	Match Details	*See Note*	Number of Matches
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55	Pensions to Payroll, between bodies		356
66	Payroll to Payroll, between bodies		54
67.1	Payroll to Payroll - Phone Number, within bodies		12
67.2	Payroll to Payroll - Email, within bodies		1
68.1	Payroll to Payroll - Phone Number, between bodies		3
78	Payroll to Pensions, between bodies		5
80	Payroll to Creditors, within bodies - bank account		66
81	Payroll to Creditors, within bodies – address		13
170 / 170.1	Blue Badge Parking Permit to Blue Badge Parking Permit, between bodies		42
172.1	Blue Badge Parking Permit to Benefits Agency Deceased Persons, within bodies	*1*	1,322
172.2	Concessionary Travel Passes to Benefits Agency Deceased Persons, within bodies	*1*	7,042
172.3	Resident Parking Permit to Benefits Agency Deceased Persons, within bodies		7
172.7	Blue Badge Parking Permit to Blue Badge Parking Permit, same phone number, between bodies		131
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700	Duplicate Creditor - creditor reference	*2*	244
701	Duplicate Creditor - creditor name	*2*	113
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703	Duplicate Creditor - bank account details	*2*	108
707	Duplicate records by reference, amount and creditor reference		1
708	Duplicate Creditor - amount and creditor ref	*3*	3,818
709	VAT Overpaid		36
710	Duplicate records by name, invoice number and amount but different creditor reference		4
711	Duplicate records by supplier invoice number and invoice amount but different creditor reference and name		13
712	Duplicate records by postcode, invoice date and amount but different creditor reference and invoice number		2
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752	Procurement - Payroll to Companies House (Director) - address quality		38
	TOTALS		**14,216**

Note 1. With regard to blue badges and concessionary travel passes it is not unusual to note a high number of matches with the DWP's deceased persons data. Badges/passes remain 'live' for a period of up to five years before they expire and become subject to renewal. Considering the age demography of service users typically accessing these services, it is not unusual to note where badges/passes have been issued validly and the service user has subsequently died. The purpose of these reports is essentially to flag up to the Council that there should be no re-application for the badge/pass come the date of expiry.

Note 2. Many of the duplicate matches (Reports 700-713) are typically false positives. NFI requires LCC and ESPO to submit data sets separately, however, they appear consolidated in any output. Therefore, for each supplier used independently by both LCC and ESPO, this shows as a potential duplicate supplier on the NFI output, when in fact this is predominantly not the case.

Note 3. NFI report #708 typically contains many false positives. It is not uncommon for the County Council to make identical payments by value to a supplier, e.g. recurring payments (e.g. lease payments, annual charges) or as a result of standard re-order quantities. The output on this report is risk-assessed with higher-valued potential duplicates reviewed for probity.

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 22 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON AUDIT DELAYS AND PSAA CONSULTATION ON 2023/24 AUDIT FEES

Purpose of Report

1. The purpose of this report is to provide the Committee with an update on the actions the Government and other key partners are taking to address national issues with the backlog of local government audit opinions, and the Public Sector Auditor Appointments (PSAA) consultation on audit fees for 2023/24.

Background

2. Grant Thornton UK LLP are the External Auditor for the County Council and its Pension Fund. They have been the Council's auditor since 2018/19 and have recently been appointed for a further 5 years, to audit the accounts to 2027/28. These appointments were made under the PSAA's contracting arrangements which the Council has opted into.

3. There are challenges nationally in the current audit market which have contributed to delays in the completion of many local authority audits, alongside significant increases in audit regulation. The Redmond Review reported how local government audit is an unattractive market for audit firms and individual auditors to operate within. The market for this service is very limited.

4. In March 2023 the Council's external auditor reported on the significant capacity issues in the audit market. This comes from a combination of staff recruitment and retention difficulties combined with enhanced audit regulations which have increased the volume of work required to be undertaken as part of the annual audit. While the Council has not, so far, been significantly affected by such delays, the audit partner, Mr Stocks, provided assurance that Grant Thornton would continue to work to stabilise its audit team and adjust to the increased audit work required, but said that delays might continue for some time until the market could recover.

5. The Council's 2021/22 statement of accounts was signed by the external auditor in March 2023. While this was after the statutory completion date for the audit of the end of November 2022, this was expected. The delay was due to a national issue around the accounting treatment of Infrastructure Assets which required new legislation to be issued at the end of December 2022. This compares favourably with many other local authorities who did not have their audits completed by that date.

National Position

6. There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounded by the Covid-19 pandemic which led to a significant backlog of audit opinions.

7. By July 2023, only 27% of local audits had been completed for the financial year 2021/22. The combined total of outstanding audits dating back to 2015/16 totalled nearly 520.

8. In July 2023 the Department for Levelling Up Housing and Communities (DLUHC) issued a letter and accompanying statement to Local Authority Chief Executives, Local Authority Leaders and Chief Financial Officers in England, and Local Audit Firm Partners to provide an update on work to address the backlog of audit opinions and embed timely audits. These are attached to this report marked as Appendices A and B. The key updates were:

Context

9. The extent and number of delayed audit opinions is unacceptable and that collective action to resolve the backlog is now required. DLUHC has already implemented a wide range of measures to improve the timeliness of audits in response to Sir Tony Redmond's independent review of local financial reporting and audit. They now recognise that previous solutions have not been sufficient, and fuller action is required. Urgent cross system work has been undertaken over the Spring with the Financial Reporting Council (FRC), auditors, Section 151 Officers, regulators, government departments and other key stakeholders, to find a solution to reset the system. We await to see the outcome out of this work.

Proposals – short term

10. Working with the National Audit Office (NAO), DLUHC intends to set a series of statutory deadlines for account preparers and auditors to clear the backlog. Proposed dates:
    - 2015/16 to 2019/20 accounts, backstop date 31 March 23
    - 2020/21 to 2021/22 accounts, backstop date 31 March 24
    - 2022/23 accounts, backstop date 30 September 24
    - 2023/24 accounts, backstop date 31 March 25

11. Auditors will need to report by these statutory dates even if that means limiting their opinions. However, they must make it clear to users where the limitations are as a result of the auditor being unable to provide assurance. It is accepted that this may result in qualifications and disclaimers of opinion in the short term for a number of local bodies but that this is necessary to reset the system.

12. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) will remain a high priority.

Proposals – longer term

13. DLUHC have emphasised that a repeat of the backlog in the future must be avoided and that local audit systems must be sustainable, and it ensured that proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.

14. A review to assess the level of work required for the current reporting and disclosures on account preparers, and external audit, is proportionate to their value to the user of the accounts will be considered. In this respect, the NAO are considering changes to the Code of Audit Practice for certain balances in the accounts to prevent audit delays; and CIPFA are also exploring potential changes to the Code of Practice for Local Authority Accounts for non-investment assets (includes fixed asset valuations), and pension valuations.

15. The FRC has committed to set out annually its planned regulatory programme, including how it will review auditors' work on operational assets and pension valuations. They are also reviewing whether changes to the level of audit materiality may be beneficial.

16. DLUHC will publish a list of local bodies and audit firms which meet the statutory deadlines and those which do not.

17. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of 2023, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and to agree actions and solutions to unblock these with stakeholders.

18. The Government is working with key partners across the system of local audit over the Summer 2023 to further develop these proposals. This has included briefing sessions with local authorities attended by officers of the County Council.

19. Further consultations are expected, with the Government anticipating that changes to the relevant codes and standards will be made in time for implementation at the end of December 2023.

Local Position

20. The County Council has not been significantly affected by the wider external audit delays. The Council's latest set of audited accounts for the financial year 2021/22 were approved by the external auditor as planned in March 2023.

21. The audit of the accounts for 2022/23 is planned to be completed by the end of the calendar year 2023. This is later than the statutory deadline of 30 September, although it should be noted that the deadline has been brought forward this year (reverting to pre-Covid-19 dates) from the 30 November. The planned audit completion by the end of 2023 was discussed and agreed with the auditor earlier in the year due to the knock-on effect of the completion of the 2021/22 audit.

22. Through regular meetings with the external auditor, officers are kept up to date on audit progress. No delays have been raised with the end of 2023 planned reporting date at the current time.

PSAA Consultation on the 2023/24 Audit Scale Fee

23. The PSAA have recently issued their consultation on the proposed scale audit fees for the financial year 2023/24. The consultation closes on 10 October 2023 and officers are currently drafting a response, which will include the following key points:

- Concern at the proposed 151% increase in scale fees in the face of the Council's MTFS gaps. The Council recognises that the current local audit system is broken, partly due to the increased regulatory requirements and supply issues in the audit market and will call on the Government to provide further funding to mitigate the impact of any fee increases on local government.
- The consultation proposes that fees for recurrent additional audit work or adjustments for local circumstances should be included in the scale fees. The Council's view is that these should be separately itemised and agreed only after discussion with the external auditor.
- Finally, the consultation is unclear about the potential impact on fees of proposals to address the audit backlog. The Council is clear that any measures introduced by DHLUHC should not increase the audit fees paid by local government.

24. The 2023/24 audits are the first in the second five-year appointing period. PSAA awarded new contracts for this appointing period in 2022 to six audit firms, following a "challenging and protracted procurement". The procurement exercise demonstrated the limited audit capacity available to meet the demands of the local audit market resulting in a significant increase in price – an increase of around 151% of previous audits.

Summary

25. The Government, and key partners across the local audit system, are undertaking a series of actions during 2023 to address the national delays and backlogs in local authority audits. This includes introducing statutory completion dates for audits, acceptance of disclaimer audit opinions, a review of the proportionality of certain balances and disclosures in the accounts, and work to improve competition, capability and supply in the audit market. The Government anticipates the changes to be in place by the end of December 2023.

26. The PSAA consultation proposes increases of 151% to the audit fee scale for 2023/24. The consultation closes on 10 October 2023.

Recommendation

27. The Committee is asked to note the update provided in the report and comment on the Council's proposed response to the PSAA consultation on the audit fee scale for 2023/24.

Equality Implications

28. None.

Human Rights Implications

29. None

Circulation Under the Local Issues Alert Procedure

30. None.

Background Papers

Corporate Governance Committee 16 March 2023 – external audit of the 2021/22 Statement of Accounts
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7314&Ver=4

Corporate Governance Committee 21 November 2022 – update on the external audit of the 2021/22 Statement of Accounts (and auditor appointment)
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6846&Ver=4

Corporate Governance Committee 5 November 2021 – appointment of external auditor
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6495&Ver=4

Appendices

Appendix A – Letter from DHLUC on local authority audit delays
Appendix B – Statement from DHLUC on local authority audit delays, cross system statement on proposals

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Department for Levelling Up, Housing & Communities

Lee Rowley MP

Parliamentary Under-Secretary of State for Local Government and Building Safety

Department for Levelling Up, Housing and Communities

Fry Building
2 Marsham Street
London
SW1P 4DF

To: Local Authority Chief Executives, Local Authority Leaders and
Chief Financial Officers in England, and
Local Audit Firm Partners

18 July 2023

Dear Chief Executive / Chief Financial Officer / Local Authority Leaders / Local Audit Firm Partners,

This letter comprises an update on work since the Spring that DLUHC officials, along with Financial Reporting Council (FRC) colleagues, have undertaken to address the significant backlog of local audits in England and develop a sustainable solution to the timeliness challenges which the sector has faced in recent years. At the time of writing, only 27% of local audits have been completed for the financial year 2021-22. The combined total of outstanding local audits dating back to 2015-16 is now totalling nearly 520.

The attached paper derives from the recent work and outlines a proposed approach to resolving these issues, which has been agreed in principle with key partners across the local audit system. As Leaders of Local Authorities, Chief Executive Officers and Chief Financial Officers, you and your finance teams, alongside your auditors and Key Audit Partners, are critical to delivering high-quality financial reporting and audit in the public interest. As the paper suggests, decisive and concerted action is required to deal with the challenges in the local audit system. I would very much welcome your support in these endeavours and DLUHC officials will continue to engage with you as these proposals are further developed.

In summary, we are proposing that the National Audit Office (NAO) and DLUHC set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls and financial reporting, as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion, making clear to the user of the accounts where full evidence hasn't been confirmed, and which the auditor is therefore unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) will remain a high priority.

It will be the case that these deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, there is broad consensus across the system that without any action being taken, delays will continue for a number of years, and in that scenario, when the delayed audits are reported they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.

It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.

The Comptroller & Auditor General (C&AG) is therefore considering changes to the Code of Audit Practice on certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation. The C&AG will of course keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.

To support this broader work, it is important that the accounting framework set through the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting carefully balances the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer. CIPFA is therefore exploring changes to the Code for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for local authority non-investment assets and pension valuations for a local authority context.

CIPFA has already made a temporary adjustment to the Accounting Code on the reporting requirements for valuation of local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.

In terms of ongoing regulatory requirements, the FRC has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest. As part of this work, the FRC intends to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. The FRC's inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance. The FRC is also working with auditors, practitioners and regulatory bodies to consider whether changes to the level of audit materiality may be beneficial. This work is expected to conclude before the end of the year.

The Levelling Up, Housing and Community Committee is conducting an inquiry into Local Financial Reporting and Audit. I gave evidence to the Committee on 17 July and I have shared a copy of the enclosed cross-system statement with the Committee Chair.

The proposals will be subject to further work and engagement across the system over the Summer, including with Section 151 Officers, Chief Executive Officers, elected representatives, the Local Government Association and audit firms. We look forward to discussing this further with you in the coming weeks and will ensure that there are arrangements in place to engage all parts of the local audit sector, including the range of local bodies. Subject to the conclusion of the appropriate details, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Yours sincerely,

Lee

LEE ROWLEY MP

Parliamentary Under-Secretary of State for

Local Government and Building Safety

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LOCAL AUDIT DELAYS – CROSS-SYSTEM STATEMENT ON PROPOSALS TO CLEAR THE BACKLOG AND EMBED TIMELY AUDITS

Introduction

1. There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounding during the COVID-19 pandemic, leading to a persistent and significant backlog of audit opinions. Since November 2020, the Department for Levelling Up, Housing and Communities (DLUHC) has implemented a wide range of measures to improve timeliness and the wider local audit system as part of its response to Sir Tony Redmond's *Independent Review of local financial reporting and audit.*[1] In addition, in December 2021 DLUHC published a further package of measures to improve local audit delays, which went beyond Sir Tony Redmond's original recommendations.

2. We recognise that fuller action is required. This note sets out a range of broad proposals and actions, agreed in principle with key partners across the local audit system, to address the backlog of local audits in England. Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework, and we must collectively ensure that the local audit system is on a strong and sustainable footing for the future. There exists a shared resolve and commitment amongst the organisations referenced in this document to take action now to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies,[2] in order to provide the vital accountability and assurance needed for local people and their elected representatives.

3. Further engagement and cross-system work will be needed this Summer to finalise the proposals outlined in this statement. Following this, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Context

4. Local audit completion for the financial year 2021/22 remains at approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 now totalling nearly 520. This is clearly unacceptable. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog. Restoring timely audit and financial reporting will improve local accountability, strengthen the government's ability to identify warning signs of potential failure in local bodies and provide assurance to local residents about financial management and governance.

5. DLUHC, working with the Financial Reporting Council (FRC) as it prepares to commence the shadow system leadership role, has led urgent cross system work over the Spring - involving auditors, Section 151 Officers, regulators, government departments and other key stakeholders – to find a solution to reset the system.

ADDRESSING THE LOCAL AUDIT BACKLOG: PROPOSITION

6. Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed

[1] Local authority financial reporting and external audit: independent review - GOV.UK (www.gov.uk)

[2] Local bodies include councils but also other relevant authorities as defined under the Local Audit and Accountability Act (2014)

audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls, financial reporting as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important mechanism for assurance and for identifying areas of concern at an early stage, allowing councils to address them. Under these proposals this will remain a high priority.

7. These deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, including to mitigate any unintended consequences of these measures, there is broad consensus from organisations referenced in this document that without any action being taken, the delays will continue for a number of years, and in that scenario, when the delayed audits are reported, they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.

8. Where an auditor has to issue a disclaimer of opinion, however, there will still be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures will not be covered by an unqualified auditor's opinion. The Department is seeking to ensure that work to clear the backlog of accounts takes place within a limited window of time. It will therefore consider measures to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years and ensure the burden of auditing opening balances does not risk creating further delays. An important consideration will be ensuring there is appropriate assurance in place for opening balances for the start of the new contract period for the 99% of local bodies which have opted in to Public Sector Audit Appointments Limited's (PSAA) scheme.

Commitments by system partners

9. The **National Audit Office** is considering the development of a replacement Code of Audit Practice to give effect to the changes outlined above. This would include a requirement on auditors to issue the audit opinion for specific financial years in line with new statutory deadlines set out in legislation for the relevant authority. Auditors' statutory requirement to report on value for money arrangements would remain unchanged. Auditors would also be expected to facilitate a smooth transition during the contract handover period for the 2023/24 contracts. As part of this work the NAO will be establishing a specific Programme Board to provide the necessary governance to deliver a replacement Code of Audit Practice by the end of the year including the necessary consultation and Parliamentary process.

10. Alongside this **DLUHC** is considering whether legislative change is needed to:

    a. set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

b. address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years.

11. Under these proposals the **Chartered Institute of Public Finance and Accountancy (CIPFA)** would issue guidance to support accounts preparers to follow any amended regulations which set out new statutory deadlines, provided the authority is in receipt of the appropriate audit findings report from the auditor. CIPFA would also set out how Section 151 Officers should approach their responsibilities to certify the accounts in light of potential qualifications or disclaimers which may result from these proposals.

12. To support these changes, the **Financial Reporting Council (FRC)** will publish guidance on its regulatory approach to Major Local Audits[3] (MLAs), articulating the importance of timeliness and compliance with statutory deadlines as an additional measure of audit quality. It will work with the NAO on the development of guidance where necessary to assist with the application of standards for these audits, including the need to meet the statutory dates. Local auditors will be required to have regard to and follow the NAO's guidance. The FRC's inspection activity would review auditors' compliance with auditing standards, the Code and relevant NAO guidance.

13. The FRC will use its broader supervisory role to ensure commitment from audit firm leaders to implement the policy measures and the steps that are being taken to meet the timetables for concluding historical audits. This route will be used to escalate any pervasive concerns the FRC has gathered on an audit firm's resilience, risk management and ability to deliver timely local audits and address their part of the backlog.

14. Under these proposals the FRC intends not to undertake routine audit quality reviews and inspections of MLAs for the historic audits up to the end of the 2021/22 financial year (though FRC will continue to inspect audit firms which deliver NHS audits). FRC will only conduct quality review inspections for historical audits where there is a clear case in the public interest to do so. The FRC will suspend the decision on the timing, scope, and coverage of inspections for the 2022/23 audits until there is confirmation of any revision to the NAO's Code of Audit Practice.

15. The FRC will need to ensure that its enforcement function is still able to appropriately gather information and evidence to determine whether, in the public interest, there should be an investigation into accounting or auditing issues where there are significant financial and governance failures.

16. The **Institute of Chartered Accountants in England and Wales** (**ICAEW**) is responsible for the inspection and regulation of non-Major Local Audits.[4] The ICAEW proposes that its regulatory response to these measures will be consistent with the planned action of the FRC, as set out above.

17. **PSAA** is responsible for appointing an auditor and setting scales of fees for local bodies that have chosen to opt-in to its national scheme. A small number of authorities are not opted-in to PSAA's scheme and appoint their own auditors independently. Under these proposals, PSAA anticipates that it will need to determine final fees for opted-in authorities for the historic periods on a case-by-case basis. Its guiding principle in this will remain that if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted, then they are due the appropriate fee for the

[3] An audit of a local government body or NHS body with income or expenditure of at least £500m or a local authority pension scheme with at least 20,000 members or gross assets in excess of £1bn.

[4] ICAEW's Quality Assurance Department (QAD) is responsible for reviewing local audits conducted under the Local Audit and Accountability Act that are not major local audits.

work done, and the body is due to pay the applicable fee, including where there is a disclaimer or qualified opinion. Conversely, if an auditor has collected audit fees in part or in full, and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done.

18. A number of **audit firms** with responsibility for local audits from 2015 have been a party to the development of these proposals, and under these plans would work with DLUHC, FRC and NAO on their professional commitment to the steps they would take to ensure successful implementation of the measures to clear the backlog. Such a commitment, underpinned by the auditors' professional duty to be independent and deliver consistent high-quality and timely work, would be welcomed by all parties within the system. Audit firms will of course need to operate in accordance with any changes to the Code of Audit Practice as well as continuing to fulfil their existing statutory duties.

19. **Chief Executive Officers, Section 151 Officers and Audit Committees** also play a critical role in delivering high-quality financial reporting. DLUHC will continue to engage Section 151 Officers and the wider sector as proposals are further developed over the Summer.

20. Under these proposals, Section 151 Officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time. In addition, Chief Executives, Section 151 Officers, local authority Leaders and Chairs of Audit Committees should alert the auditor to significant organisational risks, critical decisions and changes in financial sustainability, and also where they have identified concerns on systems of financial control, financial reporting and capacity and capability to produce high-quality financial reporting on time. Where there are significant resilience risks, they should alert the auditor of the options, choices and alternatives that are being considered.

21. We will work with the **Local Government Association (LGA)** over the Summer, including to engage its members on these proposals. Under these proposals the LGA will support councils to understand their role in relation to external audit and that of auditors, and help councils communicate those messages to elected members and officers as necessary. The Department will also continue to engage with Section 151 Officers and treasurers' societies, in addition to representatives from the range of authorities impacted by these proposals.

LONGER TERM CHANGE

22. In order to prevent a recurrence of the backlog, it is essential that underlying issues which may have driven delays are addressed. Work will therefore progress with a number of organisations including the FRC, the NAO, CIPFA and the LGA to devise an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines. We will also look to publish a list of local bodies and audit firms which meet statutory deadlines and those which do not.

23. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of the 2023 calendar year, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and agree actions and solutions to unblock these with stakeholders.

Local financial reporting, auditing and regulatory requirements

24. It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.

25. Although reporting and disclosure requirements required by the Code of Practice on Local Authority Accounting have not changed for many years, there is a perception that both audit and regulatory expectations relating to the audit of non-investment assets have increased significantly in recent years. As a result, both account preparers and auditors frequently engage specialist valuers to provide the level of assurance which is thought to be necessary. In his review, Sir Tony Redmond noted a lack of consensus within the system over how to address this.

26. Local authority financial reporting must balance the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer. Where reporting, auditing and regulatory standards combine to create pressures which delay timely reporting and audit, this should be addressed by responsible organisations across the local audit system. Doing so is vital in ensuring the delicate balance between high-quality financial reporting and user value is maintained.

27. There is also a question as to whether the level of work required for the current reporting and disclosures obligations on account preparers, which then require audit and oversight, is proportionate to their value to the user of the accounts, given the potential financial or governance risks are relatively low. All system participants therefore need to consider whether this work is proportionate to risk and a wise use of taxpayers' money, and will do so in the coming months.

28. Local authority accounts are consolidated within the statutory Whole of Government Accounts, which are prepared in accordance with International Financial Reporting Standards (as adapted and interpreted for the public sector). Since 2010 these standards have been reflected in the Code of Practice on Local Authority Accounting, which is independently set by CIPFA and passed by the CIPFA LASAAC[5] board, under the advice of the Financial Reporting Advisory Board (FRAB) - an independent advisory board.

29. In light of these issues, the **Comptroller & Auditor General** (C&AG) is considering changes to the Code of Audit Practice relating to certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. The C&AG is taking this action under the requirement of the 2014 Local Audit and Accountability Act that he should keep under review whether the existing Code continues to embody best professional practice with respect to the standards, procedures and techniques to be adopted by local auditors. As such, it reflects the seriousness with which he views the current delays in the local audit system. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation.

30. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. A range of mechanisms will be considered to allow auditors to discharge their responsibilities to gather sufficient, appropriate and reliable audit evidence in accordance with International Standards on Auditing (ISAs).

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[5] Local Authority (Scotland) Accounts Advisory Committee

31. The C&AG, as he is required to do by the Local Audit and Accountability Act 2014, will keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.

32. **His Majesty's Treasury (HMT)** is conducting a thematic review of the valuation of non-investment assets such as roads and office buildings for financial reporting purposes across the public sector. The review is seeking to evaluate the advantages and disadvantages of the current valuation regime and consider the appropriate measurement options.

33. There are advantages to the alignment of central and local government accounting, including allowing local government accounts to be more easily consolidated into the statutory Whole of Government Accounts. As set out above, however, the level of work required by account preparers and auditors must not limit the value of the accounts to the user. **CIPFA** is therefore exploring changes to the Code of Practice on Local Authority Accounting for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension valuations for a local authority context. As a standard setter, CIPFA's guiding principle in approaching any changes to the reporting requirements adopted by the public sector in 2010 will be ensuring that high-quality financial reporting and the utility of financial statements to account users is maintained. As outlined above, any consideration of changes to accounting requirements will be accompanied by a broader set of measures from actors across the system.

34. CIPFA's work will run in parallel to HMT's thematic review. As the body responsible for local government accounting requirements, CIPFA is part of the working group HMT has set up for the review. CIPFA has clearly set out its view on the review's proposals. CIPFA will continue to work with HMT to ensure that any consequential changes to the Government Financial Reporting Manual (FReM) and the Code of Practice on Local Authority Accounting are considered fully to ensure that the users of local authority accounts are incorporated.

35. In addition, CIPFA has already made a temporary adjustment to the Code on the valuation and reporting requirements for local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.

36. **The Financial Reporting Council** (FRC) has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest through alignment with the significant financial, accounting and governance risks facing local bodies. As part of this the FRC expects to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. FRC inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance.

37. The FRC has also indicated, in principle, that if the audit and reporting requirements for operational asset and pensions valuations are revised, its intention will be to update the inspection approach to reflect the changes in these areas.

38. The FRC's Audit & Assurance Sandbox initiative is taking forward a specific policy discussion on the application of materiality by local authority auditors. The Sandbox brings together groups of auditors, practitioners, regulatory bodies and interested parties to explore, identify and develop solutions to specific technical and policy issues. The

materiality discussions are expected to conclude before the end of the year. Next steps could include, for instance, the FRC determining whether additional guidance is required to support how auditors set materiality levels for local bodies in line with auditing standards or working with those local audit suppliers who decide to set a different basis of materiality without such guidance.

Conclusion

39. The local audit system, which comprises all of the organisations listed above, recognises the need to restore the timeliness of financial reporting and audit in local government. That is why all system partners have made clear proposals to reduce the backlog of local audits in England which are detailed in this statement. The Government will continue to work with the FRC and all key partners across the system to continue this ambitious programme of work over the Summer. As noted above, this will include consideration of longer-term changes in order to create a more sustainable local audit system for the future.

14 July 2023

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Agenda Item 11

CORPORATE GOVERNANCE COMMITTEE – 22 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE - PROGRESS AND PLANS

Purpose of Report

1. The purpose of this report is to:

   a. Provide a summary of work undertaken during the period 8 May to 8 September 2023.
   b. Report on progress with implementing high importance (HI) recommendations as at 8 September 2023.

Background

2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit Service (HoIAS) to establish risk-based plans 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 Internal Audit Plans. Internal audit is an essential component of the Council's corporate governance and assurance framework.

Summary of work undertaken

4. The Internal Audit Service's staffing situation continues to remain stable since the last appointment of a further Senior Auditor in early October. The summer period can lead to some delays in progressing and finalising audits, so a lot of work both planned and reactive is in train.

5. 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 1** provides a summary of work undertaken between 8 May and 8 September 2023.

6. For assurance audits (pages 1 to 3 of Appendix 1) an 'opinion' is mostly 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 HI 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.

7. The LCCIAS also undertakes consulting/advisory type audits (pages 4 to 6 Appendix 1). Details, including where these incur a reasonable amount of resource, are also included. 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 has either undertaken or overseen reviews of a high number of higher risk Information Security Risk Assessments (ISRA).

8. Pages 7 to 9 of Appendix 1 provide information on: -

    a. Where the LCCIAS either undertakes itself (or aids others) with unplanned investigations. These are only reported to the Committee once the final outcome is known to avoid jeopardising investigations by others e.g. the Police. This period, five investigations were concluded. The Legal, People and Insurance Services are notified where appropriate.
    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. Internal Audit is represented on two corporate project groups.

9. In order to remain effective, and either undertake audits or feed information and guidance to others, LCCIAS staff regularly attend online training and development events and both midlands and national internal audit network events. A summary of the events attended during the last quarter is shown on pages 10 to 11 of Appendix 1.

Progress with implementing HI recommendations

10. The Committee is also tasked with monitoring the implementation of HI recommendations. **Appendix 2** details 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 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.

11. To summarise movements within Appendix 2: -

    a. **New –** Environment & Transportation (Highways works - Bond Reimbursement)

    b. **In progress (earliest date reported first & number of extensions) -**
        i. Children and Family Services - SEND Overpayments (3)
        ii. Consolidated Risk - Surveillance and CCTV Audit (3)

    c. **Closed/No longer relevant -** None this cycle

Resource implications

12. There are no resource implications arising from this report.

Equality Implications

13. There are no discernible equality implications resulting from the audits listed.

Human Rights Implications

14. There are no human rights implications arising from this report.

Recommendation

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

Background Papers

The Constitution of Leicestershire County Council

Reports to the Corporate Governance Committee on 26 May 2023 – Internal Audit Service Plan and Progress:
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6844&Ver=4

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

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Appendices

Appendix 1	Summary of Internal Audit Service work undertaken between 8 May and 8 September 2023.
Appendix 2	High Importance Recommendations as at 8 September 2023

Summary of Internal Audit Service Work – 8th May to 8th September 2023 **Appendix 1**

Assurance Audits

Department	Entity	Final report (or position at 8/9	Opinion / Assurance rating	HI Rec'n
Chief Executives	Multiply Funding Grant Funding	16th May 2023	Certified	No
Chief Executives	Foodbanks	WIP	TBC	No
Children & Family Services	2023/24 Supporting Leicestershire Families - Payments by Results (June 23 Claim) Additional batch	27-Jul-23 4-Sep-23	Certified	No
Children & Family Services	Maplewell Hall School	Draft issued	TBC	TBC
Children & Family Services	Oakfield Short Stay School	Draft issued	TBC	TBC

Consolidated Risk	National Fraud Initiative 2022/24 – investigation of outputs from data matching	Review stage	N/A	No
Consolidated Risk	Self-Assessment against the CIPFA Code of Practice – Managing the Risk of Fraud & Corruption	Self-Assessment Complete. Awaiting Moderation by External Partner.	N/A	No
Consolidated Risk	IT Hardware and Software Audit	Draft Issued	TBC	TBC
Consolidated Risk	Cyber Security Audit	Testing On-going	TBC	TBC
Consolidated Risk	Surveillance and CCTV Follow-up Audit	Review Stage	TBC	Yes
Consolidated Risk	Third Party Access and Monitoring	Testing to commence	TBC	TBC
Consolidated Risk	Fusion – Internet Expenses	Review Stage	TBC	Yes
Consolidated Risk	Validity of VAT only invoices	Final issued	Substantial	No
Consolidated Risk	Data analytics VAT numbers – using IDEA VAT checker	Final Issued	Substantial	No
Consolidated Risk	P-cards usage	Review Stage	TBC	TBC
Consolidated Risk	Key feeder systems – Accounts payable	Review Stage	TBC	TBC
Consolidated Risk	Publishing Obligations under the Local Government Transparency Code	Draft report compiled	TBC	TBC
Consolidated Risk	Disclosure and Barring Scheme Checking	Testing to commence	TBC	TBC

Consolidated Risk	Maintained Schools Payroll transition to third party payroll provider	Position Statement issued	N/A	No
Consolidated Risk	Zouch Bridge Replacement Scheme – follow up of implementation of external consultant's recommendations	Draft report being compiled	TBC	TBC
Consolidated Risk	Business Travel Documents	Review Stage	TBC	Yes
Consolidated Risk	Publishing Obligations under the Local Government Transparency Code	Draft pending	TBC	TBC
Environment & Transport	Bond Reimbursements (Counter Fraud)	8th September 2023	Partial	Yes
Environment & Transport	Local Transport Capital Block Funding (Pothole Fund) 22/23 – No 31/6001	8 August 2023	Certified	No
Environment & Transport	Local Transport Capital Block Funding 22/23 – No 31/6002	8 August 2023	Certified	No
Environment & Transport	Bus Services Operators Grant	WIP		
Public Health	Home Upgrade Grant – Phase 1 (HUG1)	29th June 2023	Certified	No
Public Health	Home Upgrade Grant Phase 2 (HUG 2) 31/6400	25 May 2023	Certified	No
Public Health	Local Authority Delivery Phase 3 (LAD 3)	WIP	TBC	

Consulting audits

Department	Entity	Final report (or position at 8/9
Consolidated Risk	Consultancy work with the Commercial Support Unit to assess the robustness of the Council's preventative controls that are in place to mitigate the risks associated with bid rigging / anti-competitive behaviour in the procurement realm.	Ongoing
Consolidated Risk	A governance questionnaire designed to assess the appropriateness of current and planned governance arrangements, in response to governance issues that have been identified within other public sector organisations, e.g. as highlighted in recent Public Interest Reports was completed, reviewed and a Management Memorandum and action plan was issued (August 2023) for discussion and agreement.	Ongoing

Consolidated Risk	ICT Policies and Procedures:
	
	- Attendance at Information Assurance Group Meetings
	- Floor walk (ongoing programme of work)
	- Advice provided on Surveillance and CCTV processes e.g. unencrypted USB usage, Zouch Bridge CCTV, input into self-assessment documentation
	- Input into Information Security Related Breaches (reported to the ICO) as and when required.
	
	EMSS Advisory: -
	
	- Provide input and advice in the following areas in conjunction with Nottingham City Council: -
	    ○ Outputs from the IT Health Check for Oracle
	    ○ Use of IDEA
	    ○ Grant Thornton Extraction of Data from Oracle
		Ongoing

Consolidated Risk	Input was provided to designing a protocol with Legal and Procurement to ensure there's a consistent approach applied should any procurement challenges occur	Phase 1 completed. Phase 2 WIP
	Information Security Risk Assessments (ISRA)	
Corporate Resources	**Insights Products** - Subscription for a financial reporting tool for the streamlining of reporting processes in LALS and ContrOCC	Signed off 10/07/23
Corporate Resources	**Granicus Firmstep** Solution used to record interactions between council departments and citizens who use specific services. ISRA included additional pieces of functionality, such as Realtime Reporting	Signed off 20/07/23
Corporate Resources	**Quit Manager Bionical Solutions** Data collection, management and reporting solution for stop smoking & weight management system.	Signed off 24/07/23
Corporate Resources	**myOHproject** New Occupational Health system - myOHportal. This replaces an existing system and supplier. Contract awarded to new supplier.	Signed off 14/08/23
Corporate Resources	**CCTV Care Home** - Review of a Care Home CCTV security arrangements	Ongoing (part of a bigger programme of work, the ISRA has been revised and due for another review)
Corporate Resources	**Generic Devices** - Process for the use of generic devices at LCC (includes use of generic login)	Ongoing
Corporate Resources	**Wagestream** - Financial Management service to LCC employees	Ongoing

Corporate Resources	**Synergy, Orchestra & system Talk Data Transfer** - Additional functionality within the Synergy System e.g. automation of feeds into School Management Systems	Ongoing
Corporate Resources	**Core+** - Web-based database solution for Integrated Youth Support (replaces CareWorks)	Ongoing
Corporate Resources	**Claremont Cloud Hosting Transfer of Data from Oracle** - Cloud Hosting of Oracle databases	Ongoing
Corporate Resources	**ECIN Phoenix Project** Youth and Justice multi-agency project, to work with an identified cohort / control group of the most violent offenders and offered intervention this will be monitored recorded on ECINS, a cloud-based case Management system used and accessed by all the involved agencies.	Ongoing
Corporate Resources	**ReMarkable Tablet** Hardware products and licensed software services that allow customers to write, draw and scribble freely on the device. Neurodiverse aid for note taking, issued by the Department of Work and Pension (DWP) as part of an access to work grant.	Ongoing

Undertaking or aiding with unplanned 'investigations'

Department	**Entity / Details**	**Outcome by 1/9**
Children & Family Services	Advice to the department regarding suspected travel claim fraud.	Advice complete. Employee has resigned.
Corporate Resources	Advice to the department regarding an investigation into misuse of Council systems and potential fraud concerning an LCC employee.	Advice complete.
Environment & Transport	Advice to the department regarding theft of bunkered fuel from Council depot.	Advice complete.
Environment & Transport	Advice to the department regarding suspected fraudulent application for disabled parking permit (blue badge).	Advice complete. Blue badge and concessionary travel pass both cancelled. Case referred to the Police.
Environment & Transport	Advice to the department regarding the suspected misuse of a fuel card by an employee to draw unauthorised fuel from Council stocks.	Advice complete.

Other control environment/assurance work

Department	**Entity**	**Final report (or position at 1/9**
Governance	Assisted the Monitoring Officer and Democratic Services Manager to appoint and train two Independent Members of the Corporate Governance Committee (CGC)	Complete
Governance	Annual interview of the HoIAS by the External Auditor to discuss a variety of governance, risks management and fraud matters – provide evidence	Complete
Governance	Draft Annual Governance Statement (AGS) 2022-23 published	Complete
Governance	Final Annual Governance Statement (AGS) 2022-23 in process of being drawn up	Ongoing
Governance	Started review of requirements for CGC self-assessment of effectiveness using revised CIPFA Guidance	Ongoing
Governance	Began design and compilation of inaugural CGC Annual Report to Full Council	Ongoing
Governance	Began design and compilation of inaugural Insurance Service Annual Report to CGC	Ongoing
Governance	Research into the role and responsibilities of LCC as the Accountable Body to the East Midlands Freeport - Two meetings with other Freeport Heads of Internal Audit - Reviewing potential Internal Audit/Risk Management role in security committee	Ongoing
Risk Management	Corporate Risk Register updates – September reporting cycle	Ongoing

Risk Management	Property & Occupants Risk Management Group Arranged, chaired, and reported actions - June and September meetings Input to the Council's approach to	Ongoing
Risk Management	Continuing Inputs to the Council's plans to meet 'Prevent' and 'Protect' (Martyn's Law) duties under 'CONTEST' (the Government's Counter-terrorism strategy)	Ongoing
Counter Fraud	Targeted approach with key sections routinely involved in procurement and commissioning activities to increase the take-up by staff of (non-mandatory) e-learning on procurement fraud risk.	Complete
Counter Fraud	Initial dialogue with external provider to explore the opportunities for near real-time data matching of Council data to the General Registrar Office (GRO) deceased persons database to seek to ensure that ongoing payments or other Council services provided to an individual can be cancelled at the earliest opportunity in the event of the death of a service user.	Ongoing

Work assisting other functions

Department	**Entity**	**Position at 1/9**
Corporate Resources	School payroll transition working group this has evolved into a Consolidated Risk audit with Terms of Engagement issued – reported under assurance work section	WIP
Corporate Resources	Operational Finance Support Model & Control Group	WIP

<u>Training, development and networks attended during the period</u>

Local Authorities Chief Auditors Network

- Regular attendance at meetings by Head of IAS and Audit Managers where appropriate

Midlands Counties Heads of Internal Audit Groups

- Management Group
  - Attendance at meeting in May 2023. Discussions points as follows:
    - Quality Assurance and Improvement Program (QAIP) Discussion
    - IIA Global Standards consultation
    - Updates from Fraud, IT & Data Analytics Sub-Groups

- ICT Audit Sub-Group
  - Inputs into IT Points of Practice
    - DBS checks for Auditors

- Fraud Sub-Group
  - No meeting this period, although networking continues via info sharing message board / platform

Midlands Contract Audit Group

- No meeting this period

Institute of Internal Auditors (IIA)

- Institute Drop In Clinics

- IIA Midlands Conference

- IIA Aspire Committee
- IIA Midlands Regional Committee
- IIA Maximising the value of Assurance
- IIA Local Authority Forum

Other IT Audit Training: -

- IIA - Data Analytics and Fraud Webinar and *Data Analytics Strategy Webinar*
- Ideagen - Artificial Intelligence Webinar

CIPFA Better Governance Forum (and LGA)

- Webinar - – Director of Local (External) Audit – Financial Reporting Council – plans for reducing external audit problems

East Midlands Risk Management Group

- No meetings in this period

Other training & development

- NAFN (National Anti-Fraud Network) Webinars – New user; service overview; DVLA user
- Competition & Markets Authority (CMA) – Bid Rigging in Public Procurement Webinar
- Upskill Audit Talent to Handle More Complex Work
- Aspiring Managers Level 1 (ongoing)
- IIA Certificate in Internal Audit (ongoing)
- Certified Information Systems Auditor – CISA (ongoing)

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Appendix 2

High Importance Recommendations at 8 September 2023

Audit Title (Director)	Summary of Finding(s) and Recommendation(s)	Management Response	Action Date (by end of) & extensions	Confirmed Implemented /No longer applicable
Reported September 2023				
Highways works - Bond Reimbursement (Environment & Transportation)	**There is no proper process for reconciling information from Oracle, agrees with independent records maintained by the service.** **Recommended** **A record of bonds should be maintained within the Service area. Responsibility for reconciling records should be assigned to a suitable individual, who should undertake regular reconciliations.**	**Agreed. Finance will complete the regular reconciliations of the service's records to Oracle GL, pending the service establishing and maintaining a mechanism for recording bond receipt and reimbursement. Further discussions required with Finance and ICT about the possibility of an online payment system to reduce the number of payments still made by cheque or by BACS before an invoice has been raised.**	**October 2023**	
Reported May 2022				
SEND Overpayments (Children and Family Services)	Two recommendations were made 1. There should be a comparison of census data to Education Health and Care Plan (EHCP) funded and Intervention Funding pupil data from the 2018/19 financial year onwards to identify further over/underpayments 2. The data comparison exercise should be repeated after each termly census submitted.	**Delivery of actions has been transferred to the Transforming Send in Leicestershire Programme finance processes workstream but will continue to be monitored by the Committee until completion.** **Some further testing of census data to pupil data used to calculate High Needs payments to schools to ensure accuracy of payments, has been requested by the**	March 2022 March 2023 June 2023 **Extend to October 2023**	

		Assistant Director (Finance, Strategic Property & Commissioning).		
Surveillance and CCTV Audit (Consolidated Risk)	Three recommendations were made: - 1. Contracts for Surveillance and CCTV installations need to be located and reviewed. 2. ISRA's and DPIAs should be completed for all surveillance and CCTV installations. 3. Site visits/audits should be undertaken to determine compliance with the SCC Code of Practice and LCC CCTV Policies.	**A detailed follow-up of the Surveillance and CCTV Audit was undertaken. It was noted that all three recommendations are being progressed, however, these have not yet been completed: -** **1. Work has progressed but not many contracts have been located. The largest contract is due to come to an end in April 2024 and therefore a new contract will be in place.** **2. A number of Information Security Risk Assessments (ISRAs) and Data Protection Impact Assessments (DPIAs) have now been completed but had yet to be signed off.** **3. Due to resourcing issues the Information Governance Team (IGT) decided to issue Self-Assessment questionnaires and then undertake physical site visits if required. A self-assessment checklist was developed by the IGT. These were then issued to the Service Areas for completion to obtain information regarding the Surveillance and CCTV systems in operation. Internal Audit inputted into the checklist. The checklist is based on the Principles of the Surveillance and CCTV Code of Practice. IGT has received some feedback on the self-assessments.**	July 2022 March 2023 July 2023 **Extend to February 2024** **Extend to February 2024** **Extend to February 2024**	

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 22nd September 2023

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 30th June 2023 (Quarter 1).

Policy Framework and Previous Decisions

2. Within the County Council's Constitution, Part 3 – responsibility for functions, the functions delegated to the Corporate Governance Committee include 'that the Council's Treasury Management arrangements are appropriate and regularly monitored'.

3. The Annual Treasury Management Strategy and Annual Investment Strategy (AIS) for 2023-27 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2023 and approved by full Council in February 2023.

4. The Treasury Management Strategy requires quarterly reports to be presented to the Corporate Governance Committee, to provide an update on any significant events in treasury management. The aim of these reporting arrangements is to ensure that those with responsibility for the treasury management function appreciate the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. This is in line with the CIPFA Treasury Management Code.

5. An update in respect of Quarter 4 2022/23 was provided to the Committee on 26 May 2023 alongside an Annual Treasury Management statement for 2022/2023.

Background

6. 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”.

7. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the Treasury Management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. Treasury risk management at the Council is conducted within the framework of CIPFA’s Treasury Management Code of Practice.

8. Capital investments in services, including those within the Corporate Asset Investment Fund, are part of the Capital Strategy (and are part of the capital programme), rather than the Treasury Management Strategy. The capital programme is monitored and reported regularly to the Scrutiny Commission and the Cabinet.

Economic Background

9. The Council’s treasury management adviser, Link Asset Management (Link), provides a periodic update outlining the global economic outlook and monetary policy positions. An extract from that report is attached as Appendix A to this report. The key points are summarised in the following paragraphs.

10. Inflation as measured by the consumer price index (CPI) fell from 10.1% to 8.7% as of May 2023. This was caused by a drop in food and fuel inflation rates. However, core CPI (CPI excluding energy and food prices) inflation rose from 6.8% to 7.1%. Commentators are expecting overall CPI inflation to ease in the coming months, but a recent surge in core inflation and the reacceleration in wage growth indicates that domestic inflationary pressures are still strengthening.

11. Growth continues to be more robust than expected with April 2023 data showing a month on month increase in gross domestic product (GDP) of 0.2% following March’s 0.3% contraction. The increase in April is believed to have been driven by a reduction in strike action which will further raise hopes that the economy will avoid a recession this year.

Action Taken During Quarter 1 to June 2023

Private Debt and Bank Risk Sharing Funds

12. The table overleaf provides an overview of the Council's investments in private debt and bank risk sharing funds. As well as showing the current capital levels within each fund the table also shows the Net Asset Value (NAV), and Internal Rate of Return (IRR) for each fund.

Summary Private Debt and CRC:

						During Qtr	
	Total Commitment (£m)	Capital remaining (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd	Capital Movement (£m)	Income (£m)
2017 Mac IV	20.0	6.9	6.9	4.9%	3.8	- 1.3	0.7
MAC VI	20.0	18.5	19.6	5.6%	0.5	- 0.3	0.5
CRC CFR 5	15.0	15.0	15.9	-	-	0.0	-

13. The Council received its 24th, 25th and 26th distributions from the Partners Mac IV (2017) fund during the quarter, these totalled £2.0m. Of this £2.0m, £1.3m represented a return of invested capital (shown as a negative figure in the table above), with the remaining £0.7m being income.

14. The Council received it's 1st, 2nd and 3rd distributions from the Partners MAC VI fund, these totalled £0.8m. Of this £0.8m, £0.3m represented a return of invested capital (shown as a negative figure in the table above), with the remaining £0.5m being income.

15. There were no further commitments to or distributions from Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). As this investment is still in the investment period the IRR cannot yet be calculated reliably.

Short Term Investments

16. A summary of movements and key performance indicators (KPIs) in the Council's investment loan portfolio can be viewed in the table below. The table details the portfolio Annual percentage rate (APR) of the portfolio, the average APR of loans matured, and new loans placed. The table also shows the weighted average maturity (WAM) of the portfolio.

KPIs Loans only:

	Total Loans	APR (Loans Only)	WAM (Days)	Maturities (£m)	APR Maturities	New Loans (£m)	APR New Loans
Current Qtr	391.9	4.70%	179	185.5	3.61%	151.9	5.58%
Prior Qtr	425.5	3.85%	135	168.6	2.75%	225.5	4.45%
Change	↓ 33.6	↑ 0.85%	↑ 44.0	↑ 16.9	↑ 0.86%	↓ 73.6	↑ 1.13%

*WAM excludes MMFs as these are O/N maturity

17. The total balance available for short term investment decreased by £33.6m during the quarter. This was anticipated as no precept is received during the month of June and £12.3m worth of PWLB debt was repaid early.

18. The replacement margin on new loans (vs maturities) was 1.97% (up 0.27% from last quarter). Worse than expected inflation data and signals from the BoE have meant that commentators expect interest rates to remain higher for longer than previously anticipated.

19. The Loans weighted average maturity (WAM) increased by 44 days and indicates that the portfolio will be slightly less sensitive to movements in interest rates (whether these are up or down). This was driven by more cash being available to lend longer and, following signals from the market that base rate rises may be slowing down, active decisions to lock in some rates for a longer duration.

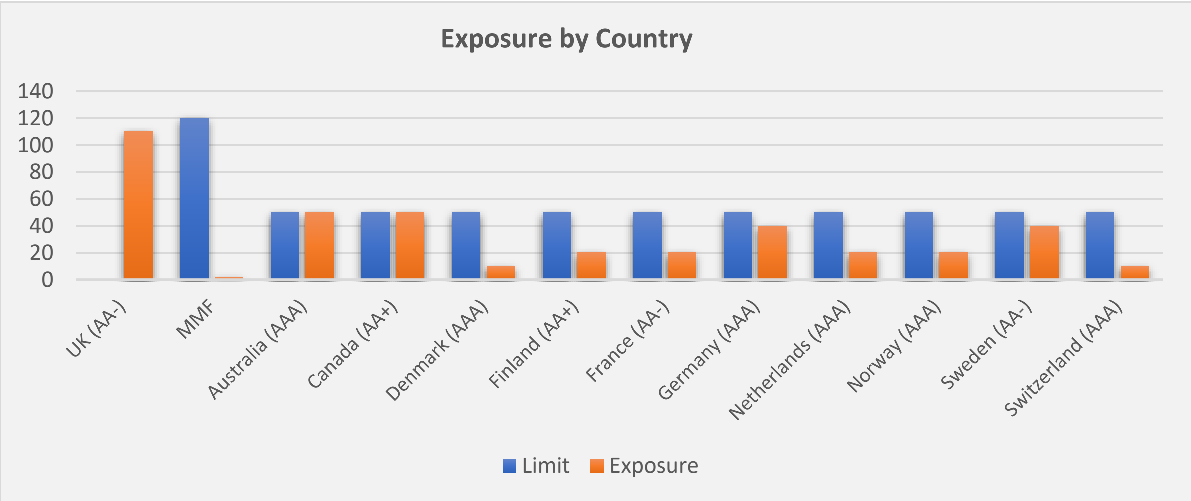
20. The loan portfolio at the end of June was invested with the counterparties shown in the table below, listed by original investment date:

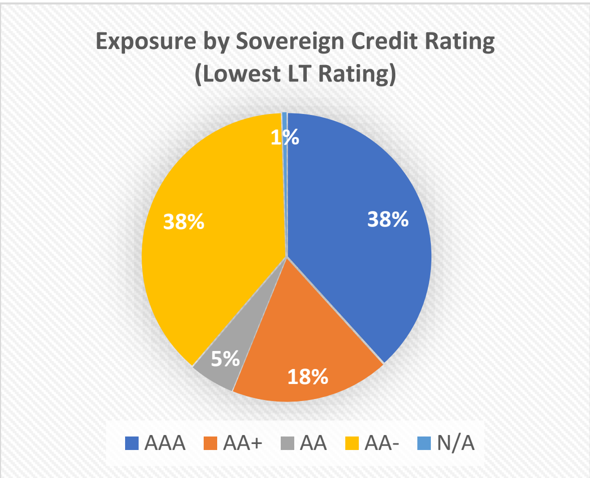
	£m	Maturity Date
Instant Access		
Money Market Funds	1.9	July 2023
6 Months		
Lloyds (Bank of Scotland) (CD)	20.0	July 2023
National Westminster Bank Plc	10.0	July 2023
Union Bank of Switzerland (UBS) (CD)	10.0	July 2023
Credit Agricole CIB (CD)	10.0	August 2023
Close Brothers	10.0	September 2023
Close Brothers	20.0	September 2023
National Bank of Canada	10.0	October 2023
Lloyds (CD)	15.0	October 2023
Close Brothers	5.0	November 2023
12 Months		
Nordea Bank (CD)	20.0	August 2023
National Australia Bank	20.0	August 2023
Landesbank Hessen Thuringen	10.0	September 2023
Landesbank Hessen Thuringen	10.0	October 2023
DNB Bank (CD)	10.0	November 2023
DNB Bank (CD)	10.0	January 2024
National Westminster Bank Plc	10.0	January 2024
DZ Bank (CD)	10.0	February 2024
DZ Bank (CD)	10.0	February 2024
National Westminster Bank Plc	20.0	March 2024
Seb (CD)	20.0	March 2024
Rabobank (CD)	10.0	March 2024

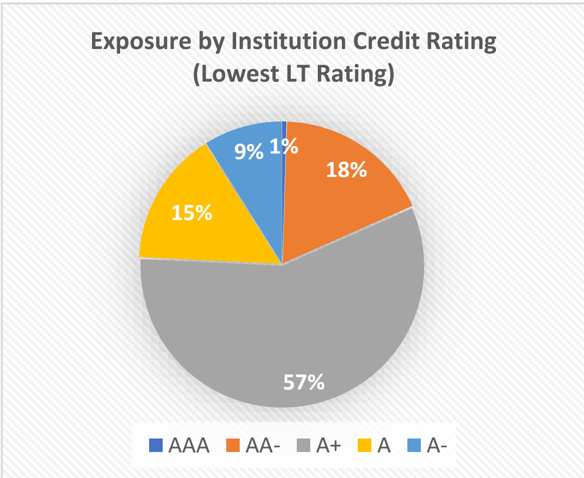
Commonwealth Bank of Australia (CD)	10.0	April 2024
Toronto Dominion Bank	20.0	May 2024
Credit Industrial Et Commercial (CD)	10.0	May 2024
Swed Bank (CD)	20.0	May 2024
Bank of Montreal	20.0	May 2024
Australia & New Zealand Bank	20.0	May 2024
Rabobank (CD)	10.0	June 2024
Beyond 12 Months		
Partners Group (Private Debt) 2017	6.9	Estimated 2024
Partners Group (Private Debt) 2021	18.5	Estimated 2026
CRC CRF 5 (Bank Risk Sharing)	15.0	Estimated 2026
Danske Bank#	10.0	September 2027
Total Portfolio Balance at 30 June 2023	**432.3**	

#Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.

21. The graphs below show the exposure of the short-term investments by country, sovereign rating and institution rating:



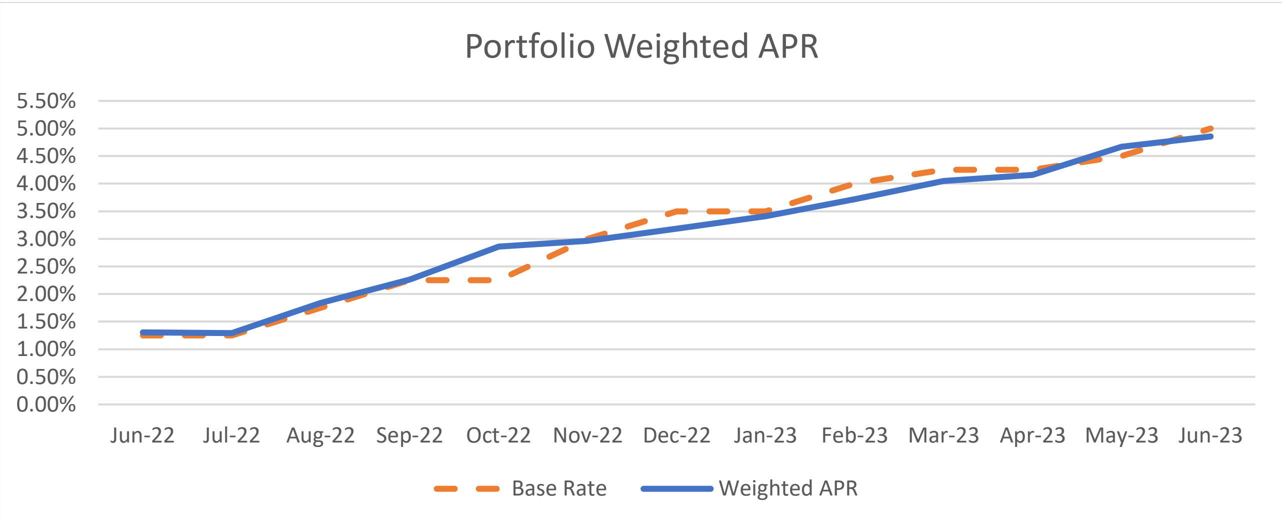




22. These graphs provide an indication of the Council's exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the cost of insuring against a default) and general economic conditions are also factored in before the counterparty list is drawn up.

<u>Total Portfolio</u>

23. The total portfolio weighted APR increased from 4.05% in Q4 22-23 to 4.86% in Q1 23-24. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate. The graph shows that the portfolio APR dropped below base rate during December 2022 and, with the exception of May 2023, has stayed slightly below since. Most investments within the portfolio are on a fixed interest basis so changes in base rate do not immediately have a material impact on the APR achieved. One indicator for how big this lag is the WAM. This shows the average length of time remaining until the Council's short-term investments mature and can be viewed in the table below paragraph 16. As investments mature and are reinvested the current expectation is that these will be at a higher rate, and as base rate peaks the APR is likely to move up in line or above base rate. Members should note that it is the future expectation for base rate that drives the price achieved.



Loans to Counterparties that breached authorised lending list

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

Debt Rescheduling

25. During Q1 2023/2024, gilt yields, which underpin PWLB rates, increased to levels sufficient to consider longer term debt rescheduling opportunities.

26. After consultation with Link, our treasury management advisors, a decision was taken to reschedule the following loans:

	Start Date	Maturity	Principal	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Remaining Principal
490987	11/01/2006	25/09/2051	11,142,000	3.90%	434,538	-862,705	4.38%	0
461697	27/03/1987	31/12/2043	1,131,741	9.00%	101,857	701,922	4.39%	5,155,709
			12,273,741	**4.37%**	**536,395**	**-160,782**		

27. Rescheduling the above loans resulted in a net discount of £160,782 for the Council. The intention was to balance the premium and subsidies, but this isn't always possible due to twice daily shifts in the premature repayment rates. This will be balanced out as much as possible as future repayments are made.

28. A gross discount of £0.86m was secured by repaying £11.1m at 3.90%. This discount offset the premium charged on a partial early repayment of £1.2m at 9.00%. By rescheduling these debts, the Council is estimated to save £0.6m pa repayment in interest payments but of course this is uncertain and ultimately will depend on what actually happens to interest rates over the maturity period.

Compliance with Prudential and Treasury Indicators

29. The prudential and treasury indicators are shown in Appendix B. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ending 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

Resource Implications

30. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. The budgeted income for interest generated by treasury management activities (excluding private debt and pooled property investments) for 2023/2024 was £1.4m. Current forecasts indicate that actual interest earned in 2023/2024 may reach as high as £14.0m. This forecasted overperformance is being driven by continued increases in interest rates.

Recommendations

31. The Committee is asked to note this report.

Background papers

32. None.

Circulation under the Local Issues Alert Procedure

33. None.

Equality and Human Rights Implications

34. There are no discernible equality and human rights implications.

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Appendices

Appendix A - Economic Overview (Year to March 2023)
Appendix B – Prudential and Treasury Indicators for 2022/23 as at 31 March 2023

Appendix A

Economic Overview (June 2023) – Provided by Link Asset Services

- The first quarter of 2023/24 saw:
  - A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
  - CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
  - Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
  - A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
  - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
  - 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.
- The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.
- The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.
- Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June.
- The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.
- The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%
- The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition,

regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.

- CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

- This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

- That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

- Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

- The pound strengthened from $1.24 at the start of April to a one-year high at $1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May, before rising again to $1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

- In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11th May and 22nd June 2023

- On 11th May, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.
- Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

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APPENDIX B

PRUDENTIAL INDICATORS 2023/24

	Original Indicator	Forecast as at Quarter 1
Capital Expenditure (excluding Schools devolved formula capital)	£171m	£143m
Capital Financing Requirement	£202m	£202m
Actual Capital Financing Costs as a % of Net Revenue Stream	4.0%	3.8%
Net income from commercial and service activities as a % of net revenue stream	1.3%	1.1%
Operational Limit for External Debt	£263m	£263m
Authorised Limit for External Debt	£273m	£273m
Interest Rate Exposure – Fixed	50-100%	50-100%
Interest Rate Exposure – Variable	0-50%	0-50%
Actual debt as at 31/3/2023	£262m	£262m

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