

Informal Meeting Agenda

Audit & Governance Committee



Date & time
Friday, 18 June
2021
at 2.00 pm

Place
Remote

Contact
Joss Butler

Chief Executive
Joanna Killian

Joss.butler@surreycc.gov.uk



We're on Twitter:
@SCCdemocracy

Members

Stephen Cooksey, Victor Lewanski (Vice-Chairman), David Lewis (Chairman), Rebecca Paul, Joanne Sexton and Richard Tear

Please note that due to the Covid-19 situation this meeting will take place remotely and informally i.e. not open to the public.

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 INTERNAL AUDIT & COUNTER FRAUD ANNUAL REPORT AND OPINION 2020-21

(Pages 1
- 32)

The purpose of this report is to give an opinion on the adequacy of Surrey County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2020 to 31 March 2021 in accordance with the Internal Audit Strategy for 2020/21.

3 RISK MANAGEMENT

(Pages
33 - 36)

To provide the Committee an update on the current risk management position and next steps to improve risk management across the organisation.

4 2020/21 DRAFT ANNUAL GOVERNANCE STATEMENT

(Pages
37 - 50)

This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year ending 31 March 2021.

5 DRAFT STATEMENT OF ACCOUNTS 2020/21

Report to follow.

6 2020/21 TREASURY MANAGEMENT OUTTURN REPORT

(Pages
51 - 62)

This report summarises the Council's treasury management activities during 2020/21, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

7 DATE OF NEXT MEETING

The next meeting of Audit & Governance Committee will be on 29 July 2021.

Joanna Killian
Chief Executive
Published: 10 June 2021

AUDIT & GOVERNANCE COMMITTEE
18 June 2021

Internal Audit & Counter Fraud Annual Report and Opinion 2020-21

SUMMARY AND PURPOSE:

The purpose of this report is to give an opinion on the adequacy of Surrey County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2020 to 31 March 2021 in accordance with the Internal Audit Strategy for 2020/21.

RECOMMENDATIONS:

Members are asked to:

- (i) Note the work undertaken and the performance of Internal Audit in 2020/21 and the resultant annual opinion of the Chief Internal Auditor; and
- (ii) Determine whether there are any matters that the Committee wishes to draw to the attention of the Cabinet or full Council;
- (iii) Consider whether the Council's arrangements for internal audit have proved effective during 2020/21

BACKGROUND:

1. All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.
2. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.
3. No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that Surrey County Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2020 to 31 March 2021.
4. This opinion, and the evidence that underpins it, is further explained in the full Internal Audit Service's Annual Report and Opinion which forms Annexe A of this report. The report highlights:
 - Key issues for the year, including a summary of all audit opinions provided;
 - Progress on implementation of high-risk recommendations;
 - Key financial systems;
 - Other internal audit activity;
 - Effect of COVID-19 on planned work; and
 - Anti-fraud and corruption coverage.

5. A summary of the major findings from audit reviews completed during quarter 4 of 2020/21 is included in Annexe B (major findings from previous quarters have already been reported).
6. Finally, Section 6 of the annual report sets out details of internal audit performance for the year, including details of compliance against the relevant professional standards. Note that one of the key performance indicators was suspended during the year due to the ongoing effect of the pandemic on the delivery of the original agreed annual audit plan.

INTRODUCTION:

7. During 2020/21 the Surrey County Council Internal Audit team has continued to work closely with the two partner internal audit teams to share best practice and align working methodologies, facilitated by a shared audit management system. Collaborative working has led to changes in various aspects of Internal Audit practice and process, and has achieved economies in the delivery of audits through the development of specialisms and more effective joint working.

IMPLICATIONS:

8. Financial
Equalities
Risk management and value for money
9. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report would be progressed through the agreed Reporting and Escalation Policy.

WHAT HAPPENS NEXT:

10. The Chief Internal Auditor and Audit Manager will continue to update management and members on the progress of issues within this report that have not been fully concluded.

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ANNEXE A

INTERNAL AUDIT ANNUAL REPORT & OPINION 2020/2021



1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

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

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 The impact of COVID-19 has made 2020/21 a unique year for Internal Audit as was the case for the vast majority of the services we have audited. This has meant that we have had to adapt our working practices, reschedule audits and make a much greater number of amendments to the year's audit plan than would normally be the case.

2.3 The significant changes to our workplan meant that it was necessary to produce a revised audit plan part way through the year. This was agreed by the Audit and Governance Committee in November 2020 and replaced the Internal Audit Plan that was approved in May 2020.

2.4 In addition, Orbis Internal Audit redeployed some of its resources during the year to support the COVID-19 response and recovery work streams across the Council. This work has been detailed in our quarterly update reports but is also summarised elsewhere in this report.

2.5 During 2020/21 we have seen a substantial increase in the number of government grants that need to be certified by Internal Audit, all of which are specific to supporting the Council through the pandemic. In addition, significant resources have been directed to providing advice and support on system changes (to support remote working) and data analytics to identify any issues arising from new ways of working.

2.6 Notwithstanding the above, we have still been able to deliver sufficient audit and assurance activity within the year to enable us to form an overall annual audit opinion for the Council in the normal way. This includes delivery of the revised programme of audits and investigating any allegations of fraud and other irregularities.

2.7 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit and Governance Committee as part of our periodic internal audit progress reports. It should be noted that whilst there were a number of audits reports still in draft at the year-end, the outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported to the Audit and Governance Committee once each of the reports have been finalised with management.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide Reasonable Assurance⁽¹⁾ that Surrey County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2020 to 31 March 2021.

3.2 Further information on the basis of this opinion is provided below. Overall, whilst the majority of audit opinions issued in the year were generally positive, internal audit activities have identified a number of areas where the operation of internal controls has not been fully effective, as reflected by one minimal assurance opinion and five partial assurance opinions issued in the year. All six areas will be subject to a follow-up audit to ensure improvement has occurred.

3.3 Where improvements in controls are required as a result of any of our work, we have agreed appropriate remedial action with management.

3.4 The Council has recognised that its risk management framework could be strengthened, with key areas to be addressed including the consistency with which services use risk registers to record and score risks, and how high level risks are identified and mitigated. External consultants Ernst & Young (EY) were retained during 2020 to progress thinking around risk management issues, and investment in a new corporate risk manager appointment will further drive the improvement programme forwards. Whilst improving the underpinning framework is a key activity, ongoing day-to-day risk management and activity within directorates has continued as part of business-as-usual.

3.5 These underlying risk activities have been evidenced in a number of ways in our annual programme of work. Through the nature of their work some services have more advanced and embedded processes, particularly those dealing with children or vulnerable residents for example. The risk-based nature of the audit plan has allowed us to review and draw assurance from reviews in areas of these higher risk corporate activities.

¹ This opinion is based on the activities set out in the paragraphs below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

3.6 Key follow-up audits in areas of Children’s Services have identified step-change improvement in the way in which risks around safeguarding in schools have been managed, and how a fit for purpose quality assurance function is addressing operational risk through continuous monitoring and improvement mechanisms. Our involvement in the response to the COVID-19 pandemic demonstrated how emerging operational risks arising from unprecedented national and local situation was managed by the Council: paragraph 5.11 annual report details some of these areas, including the embedding of the Daily Service Status Reporting framework for capturing and responding consistently to new risk scenarios. Through our ongoing support to key corporate programmes such as the Transformation Programme and the DB&I project (replacing SAP) we have been able to gain assurance that risks are identified, recorded and mitigated appropriately.

3.7 In addition to specific audit reviews, we undertake regular liaison activity with all directorates to understand emerging pressures and risk areas, and amend our plan of work accordingly. This process provides additional assurance that despite variations in how risks are recorded and escalated, the underlying culture is one of that is risk-aware.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2020/21, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance.

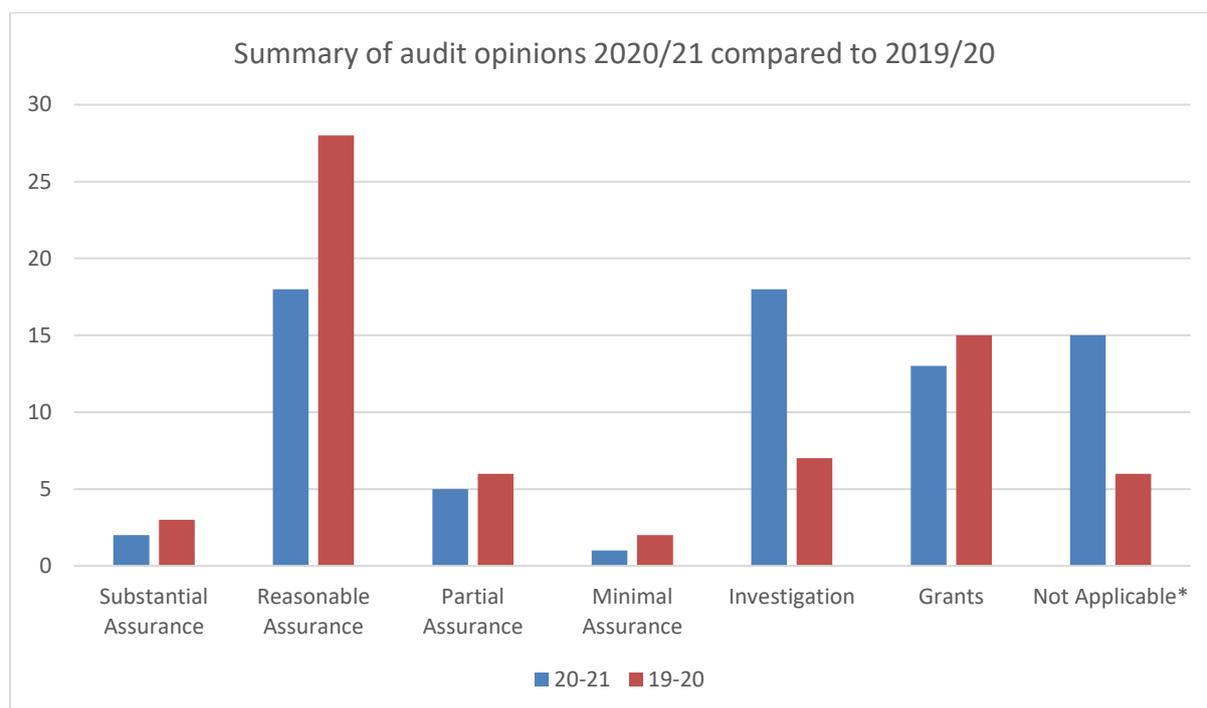
4.2 No limitations have been placed on the scope of Internal Audit during 2020/21, however, as explained above, COVID-19 and remote working have impacted on how our work was delivered, with a number of specific audits having to be rescheduled or in some cases, replaced with other activities.

5. Key Internal Audit Issues for 2020/21

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council’s Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2020/21, compared to the previous year:

Audit Opinions:



*Not applicable: Includes audit reports or activity where we did not give a specific audit opinion, plus specific C-19 support work in 20-21. Typically this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance based opinions is not appropriate.

5.3 A full list of completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. During 2020/21, one audit was completed, relating to Surrey Fire & Rescue Pension Fund Administration, where we concluded an opinion of minimal assurance. This was an audit carried forward from the 2019-20 plan and completed in quarter one of this financial year. A subsequent follow-up to that audit was started in quarter three and is currently in draft with management, with a provisional partial assurance opinion. Once finalised, details of the report’s findings and agreed actions will be presented to the next Audit and Governance Committee and is an area where the committee may wish to seek further assurance from management that the identified weaknesses are being addressed.

5.4 In addition to the above, a total of five completed audits received partial assurance opinions within the year as follows:

- Local Enterprise Partnerships;
- Property Asset Management System (PAMS) Income (follow-up);
- Liquidlogic LAS Application Controls;
- Surveillance Cameras (follow-up); and
- Officers Code of Conduct.

5.5 Additionally, whilst not included in the graph of completed audits above, a further two audits were in draft at the year-end with provisional opinions of partial assurance:

- LGPS Pensions Administration; and
- SFRS Pensions Administration (follow-up).

5.6 Whilst actions arising from these reviews will be followed-up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. Of those completed during 2020/21, all of these have resulted in either substantial or reasonable assurance being provided over the control environment. As noted above, the LGPS Pensions Administration audit was in draft at the year-end with an opinion of partial assurance. This is an improvement on our opinions for this system for both 2018/19 and 2019/20 (minimal assurance) but still remains an area of concern, albeit recognising that management now have in place a robust improvement programme to address weaknesses. We will update the Audit and Governance Committee through our quarterly reporting when the audit is concluded.

5.8 At year-end we had four key financial systems audits at draft report stage: Payroll, Procure to Pay, Revenue Budgetary Control, and Order to Cash. All of these audits will be finalised in the first quarter of 2021/22.

Other Internal Audit Activity

5.9 During the year, Internal Audit have continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Directorate Leadership Team and Senior Leadership Team meetings;
- Governance Panel;
- Risk Governance Group;
- Transformation Board and Transformation Network meetings; and
- Corporate Risk and Resilience Forum.

5.10 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

5.11 In addition, for 2020/21, we have provided significant support to individual Covid 19 response and recovery work streams. As noted in our quarterly progress reports this has included:

- Supporting the PPE Cell through the secondment of an auditor to that team, and provision of advice around new processes for the purchase, storage and resale/distribution of PPE equipment, as well as validation of CE product certification for PPE orders;

- Supporting the Crisis Fund Team through the secondment of an auditor to that team, together with advice on controls associated with administering the fund as well as the distribution and use of Allpay cards for those isolating or shielding during lockdown;
- Providing advice and assurance to services where key changes to the control environment had occurred to facilitate remote working within the lockdown periods. This included support to schools, advice across a number of key financial systems, such as pensions and BACS payment process, and advice around travel claims processes and DBS checking during recruitment;
- Provision of advice to ensure the COVID-19 Operations Calls and Enquiries process embedding consistent recording and reporting protocols for COVID-related enquiries from external parties and the public to the various services of the Council;
- Reviewing the control environment in place for the rollout of the DfE laptop allocation scheme for Surrey school children;
- Provision of support to the implementation of the Business Continuity 'Daily Service Status Report' process at the beginning of the first lockdown. This activity used resource from across all of Orbis Internal Audit to ensure that all key front-line services had properly embedded the new protocols and were reporting vital information in a consistent and complete manner;
- The provision of technical advice to resolve issues with the COVID-19 residents shielding list that was in shared use between Surrey County Council and neighbouring district and borough councils. Our work identified flaws in the set-up of the spreadsheets that was causing data to be overwritten and/or lost when shared between partner organisations;
- Supporting the organisation by using data analytic techniques to review key sources of data from within the council for possible areas of fraud, error, duplicate payment or other suspicious activity;
- Providing advice to management in respect of pensions processes, including use of electronic signature processes and controls over the approval and authorisation of payments whilst staff are working from home;
- Updating our proactive fraud plans to include a range of new COVID-19 related risks, including mandate fraud and PPE-related fraud, and the heightened risk around cyber-attacks;
- Working with the Information Governance team on developing further guidance and advice for staff in this area and supporting the Redeployment/Mobilization Team in managing staff-related data being held; and
- Supporting Procurement and front-line services with advice on processes for making payments in advance to key providers (social care, high-needs transport, etc.) to ensure continuity of service during lockdown.

Anti-Fraud and Corruption

5.12 During 2020/21, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.13 The team logged 18 allegations under the Council's Anti-Fraud and Corruption Strategy, with cases being identified through the Council's confidential reporting hotline or referrals from other departments. As a result of the allegations, 18 cases were taken forward to investigation by Internal Audit or support was provided to a management

investigation. One case was subsequently referred to another organisation for investigation.

5.14 The following provides a summary of the investigation activity undertaken by the Internal Audit Counter Fraud Team in the last 12 months:

- We received a whistleblowing allegation that a member of staff at an infant school had been treated unfairly during the redundancy process and that the redundancy fund was being misused. An investigation was conducted but no issue was identified, and it was concluded that there was no case to answer.
- Following a whistleblowing referral surrounding the process for disposing of vehicles that had been donated to the Surrey Fire & Rescue, we provided the service with advice on declaration of interests for members of staff. No irregularity was identified.
- Following a complaint that the Council were misinterpreting guidance on calculating average road speeds, we investigated and concluded that there was no case to answer. The complainant was advised that the Council were compliant with the guidance.
- Following a routine audit of payroll, we were notified that a leaver form for a member of staff who had left the council in November 2018 had not been processed until September 2019. As a result, the member of staff had continued to be paid their monthly wage and an overpayment totalling £14,608.19 had arisen. Despite clear policies our investigation found some members of the team were not clear on their responsibilities. This has now been addressed by the service and the overpayment is in the process of being recovered.
- We investigated an allegation of corruption in Children Services where it was alleged that a member of staff had bypassed the competitive tendering process and had appointed their son-in-law to carry out work on behalf of SCC. The investigation found that there was no case to answer, and that the relevant declaration and mitigations were in place.
- We undertook an investigation into an allegation relating to the purchase of drone services and an underwater camera by Surrey Fire & Rescue Service. The allegations included poor value for money, non-delivery of equipment and issues relating to potential conflicts of interest. The investigation found that the items had been purchased in line with Procurement Standing Orders and that there was no case to answer.
- We were made aware of an incident where an individual, impersonating a council officer, had obtained keys to a Council property and had then fraudulently sublet it. We found that procedures had been relaxed by a letting agent acting on the council's behalf as a result of COVID workplace restrictions, allowing the fraud. The letting agents were not able to confirm who the keys had been issued to, or what documents had been checked to confirm their identity. The property was recovered and secured with limited financial loss (one month's rent at £1,000). The investigation identified areas for improvement in the process, and these were actioned immediately. It was deemed uneconomical to pursue the case further although a referral was made to the Police through Action Fraud.

- We investigated a bank mandate fraud whereby a bogus instruction was received for one of the Council’s major suppliers. We identified that procedures for the independent verification of bank account changes had not been followed by a member of staff. Additional control improvements were agreed as a result of the investigation. A referral was made to Action Fraud and a police investigation is underway.
- We provided advice following an allegation that a member of the public was impersonating a county councillor.
- We also provided advice and support in respect of several allegations of misuse of a direct payment.
- We logged an allegation relating to benefit fraud and this has been referred to the relevant agency for investigation.
- Eight further investigations remain open at the time of writing this report.

5.15 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future audit activity.

5.16 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Council and in raising awareness amongst staff.

Priority	Progress to Date
Reactive Investigations	The Counter Fraud Team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations. The team continue to work with sovereign audit teams to investigate allegations across the partnership.
NFI Exercise	We coordinated the recent submission of Council datasets to the biennial NFI exercise. The results from the data matching were provided to the Council on 31 January 2021 and we have been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately. Results from the exercise will be shared with this committee in future progress updates.
Counter Fraud Policies	Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. We have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. Surrey’s was approved by Audit and Governance Committee on 22 May 2020 and is now available on the council’s intranet.

Fraud Risk Assessments	Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the COVID19 pandemic. This includes potential threats to payroll, and potential fraud relating to home-working and cyber-crime.
Fraud Response Plans	The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. The Fraud Response Plan for 2020/21 included a pilot data analytics programme for key financial systems. The pilot is currently paused and will be refreshed in 2021/22, as will the Fraud Response Plans which will set out the proactive work plan for Internal Audit.
Fraud Awareness	We have published fraud bulletins raising awareness to emerging threats, in particular new risks arising from the COVID19 pandemic. These have been published on the intranet and shared with high-risk service areas. In addition, we continue to monitor intel-alerts and work closely with neighbouring councils to share intelligence and best practice.

Amendments to the Audit Plan

5.17 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. As already noted, Covid 19 meant that for the first time, we found it necessary to revise and re-issue the audit plan part way through the year. This update was presented to and approved by the November 2020 Audit and Governance Committee. However, even since this revised plan was issued, a number of further additions and amendments have taken place, principally as a result of the most recent national lockdown. Additional audit activities since November include:

- IT Asset Management during COVID-19;
- PLANON (PAMS replacement);
- Ruth House Children's Home;
- Fuel Card data analysis;
- Land and Property Key Business Processes review;
- COVID-19 Travel Demand Management Grant;
- Public Health Standard Operating Procedures (SOP's); and
- Unofficial School Funds.

5.18 In order to allow these additional activities to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Code of Conduct (follow-up);
- Contract Management;
- Pavement Horizon;
- Children's Safeguarding Data Handling;
- ContrOCC;
- Parking Process Review; and
- Better Care Fund.

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2020/21, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2020/21:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our Quality Assurance and Improvement Plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post-audit questionnaires, discussions with key stakeholders throughout the year through service liaison, and annual consultation meetings with Executive and Assistant Directors.

6.5 As reported a small number of outstanding reviews were nearing completion at year end and, due to the impact of the COVID-19 pandemic, there were a number of reports still in draft at the year end. Where this is the case, this is noted against the title of the audit in this report.

6.6 We will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, CLT and the Audit and Governance Committee will continue to receive performance information on Internal Audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Appendix A

Internal Audit Performance Indicators 2020/21

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee (2020/21)	By end April*	G	Approved by Audit and Governance Committee on 22 May 2020 * (first available committee as April meeting was postponed).
	Annual Audit Report and Opinion (2019/20)	By end July	G	Approved by Audit and Governance Committee on 22 May 2020.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	Not applicable	During the COVID-19 pandemic, the audit plan was suspended before being revised and reauthorised. As a result this KPI is not applicable.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings Our internal self-assessment was completed successfully in June 2020
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	94%

Appendix B

Summary of Opinions for Internal Audit Reports Issued During 2020/21

Substantial Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Treasury Management (2019/20)	CR
EYES	CFLC

Reasonable Assurance:

Audit Title	Department
Capital Programme (2019/20)	CR
Capitalisation	CR
CFL Care Assessments follow-up (2019/20)	CFLC
CFL Quality Assurance follow-up (2019/20)	CFLC
Communities and Prevention	ASC
IR35 Compliance follow-up (2019/20)	TPP
Financial Assessments & Income Collection	ASC
Safeguarding in Education follow-up (2019/20)	CFLC
Health & Safety follow-up	ETI
Overseas Pensioners Life Certification	CR
Pension Fund Investments (2019/20)	CR
DB&I 'As-Is' Process	CR
DB&I Data Governance and Migration	CR
GDPR follow-up	CR
Cloud Computing	CR
Patch Management	CR
Mobile Device Management	CR
Network Security	CR

Partial Assurance:

Audit Title	Department
Local Enterprise Partnerships (LEP's) (2019/20)	TPP
PAMS Income follow-up	CR
Surveillance Cameras follow-up	CR
Officer Code of Conduct	TPP
LiquidLogic LAS Application Controls	ASC

Minimal Assurance:

Audit Title	Department
SFRS Pension Administration (2019/20)	CR

Grant Claims

Audit Title	Directorate
Blue Badge grant	ETI
COVID-19 Bus Subsidy grant	ETI
COVID-19 Home-to-School transport grant	ETI
Department for Transport Highways grant	ETI
Disabled Facilities grant	CR
IMAGINE (EU) (two semesters)	TPP
Digi-Tourism (EU) (two semesters)	TPP
Urban Links To Landscape (EU)	TPP
Troubled Families grant (two claims)	CFLC
COVID-19 Income Support grant	CR

Other Audit Activity Undertaken During 2020/21 (no report)

Audit Title	Directorate
COVID-19 System Changes	CR
COVID-19 PPE CE Verification process support	CP
COVID-19 Operations Calls & Enquiries process	TPP
COVID-19 Public Health Standard Operating Procedures	ASC
COVID-19 Data Analytics – Fuel Cards	CR
COVID-19 Data Analytics – Purchasing Cards	CR
COVID-19 Data Analytics – General Ledger	CR
COVID-19 Data Analytics – Creditors	CR
COVID-19 Data Analytics – Debtors	CR
COVID-19 Data Analytics – Pensions	CR
COVID-19 Data Analytics – Payroll	CR
DB&I Board support	CR
SEND Panel process support	CFLC
LGPS Pensions Administration position statement (2019/20)	CR
Your Fund Surrey advice and support	TPP

Audit Opinions and Definitions

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

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Audits Completed in Quarter 4 (January to March 2021)

Capital Programme 2019/20

The council manages a £1.905 billion five-year capital programme with the highest proportion of the programme budget being allocated to Highways and Transport, Property Services, and to school expansion. Three strategic capital groups (Infrastructure Group, Property Panel and IT Group) replaced the former Investment Panel and are responsible for developing asset plans. These are then appraised, and the funding required assessed by the Capital Programme Panel (CPP). Project and programme approvals are then sought from the Cabinet and Full Council.

The purpose of our audit was to provide assurance that controls were in place to meet the following objectives:

- An adequate action plan has been developed to address and implement the recommendations of a recently concluded PwC ‘Capital Programme Governance’ review; and
- To ensure effective financial monitoring arrangements had been developed in the interim to ensure accuracy of data to support the delivery of the current capital plan.

We were able to give **Reasonable Assurance** following our review because

- A sample of capital projects reviewed were aligned with the council’s strategic objectives and were subject to adequate planning and regular review, including variations;
- We were able to provide assurance that the processes in the updated ‘Capital Approval Process for Budget Setting’ document were consistently embedded across our sample of projects, providing sound governance arrangements for the Capital Programme; and
- The new governance arrangements had been developed in conjunction with a review of the recommendations from PwC’s Capital Programme Governance Review.

We agreed one action with management at the conclusion of the audit, which focussed on assurance that the outstanding recommendations of the PwC review were being addressed and monitored.

Pension Fund Investments 2019/20

The council has a statutory responsibility to administer and manage the Surrey Pension Fund on behalf of all participating employees from the Council and other partner organisations. The actuarial valuation of the fund as at 31st March 2019 reported assets of £4,286m against liabilities of £4,483m, resulting in a funding level of 96%.

Our audit was undertaken as part of annual assurance work covering key financial systems across the council. The review was part of the agreed Internal Audit Plan for 2019/2020 but due to the impact of COVID-19 the audit was suspended and then restarted later in the year.

[Surrey County Council](#)

The scope of our audit focused solely upon the Surrey Pension Fund and covered the following objectives:

- To ensure that appropriate controls were in place over Fund and fund managers to mitigate the risk of fraud, losses and reduced return of investments;
- To gain assurance that the Fund had a suitable statement of objectives which was linked to measurable targets and performance indicators; and
- To ensure that the Fund's investment strategy was robust and strategic decisions are implemented correctly and in a timely manner.

We were able to provide an opinion of **Reasonable Assurance** in respect to this system. We identified that appropriate controls were in place and operating effectively in relation to the administration of cashflow and interest payments; cash balances held in the fund against agreed cash management strategy; payments to fund managers and private equity funds; and the process for drawing down funds for investments.

We also were able to provide assurance on the management of risk, and a review of minutes from the Surrey Local Pension Board provided us with assurance that appropriate and robust governance arrangements are in place and are compliant with Local Government Pension Scheme regulations.

Our audit agreed three actions with management to secure improvement to ensure the retention of all copies of contract documents from investment partners were held within the team, and to ensure that quarterly reconciliations were maintained and up to date.

Treasury Management 2019/20

As part of our programme of key financial system audits, we undertook a review to assess the adequacy of key controls and procedures across the Treasury Management function, including cash flow forecasting; segregation of duties; financial investments; and use of treasury advisers.

Our audit was undertaken as part of annual assurance work covering key financial systems across the council and was the planned 2019/20 audit which had been started earlier in the year but was postponed due to the pandemic until quarter four.

We were able to award an opinion of **Substantial Assurance** for this system because:

- The service had up-to-date procedures in place, consistent with the Treasury Management Strategy and its objectives;
- Cash flow process are operated within the team via a new system called Logotech. Our testing provided assurance that cash flows were being managed effectively with funds being borrowed when required and any surplus cash being reinvested where appropriate;
- The net borrowing position of £583m was within the agreed borrowing limits outlined in the Treasury Management Strategy and was approved by the Audit & Governance Committee on 26 November 2020;

- A review of a sample of borrowings found that all loans had been received from approved parties, had appropriate authorisation and were supported by expected documentation; and
- A review of access to the corporate bank management system found that this was adequately controlled and restricted.

Capitalisation 2020/21

When organisations acquire long-term assets, International Accounting Standards (IAS) allow for revenue costs that have been directly attributable to the acquisition and implementation of the asset to be capitalised. Within the council the main forms of capital spend fall under one of three areas:

- Infrastructure (e.g. Highways);
- Property (e.g. Office building, Schools, Children’s Centres, etc.); and
- IT&D (e.g. IT systems, IT hardware, etc.).

Our audit was an in-year addition to the agreed 2020/21 Internal Audit Plan based on a request from Finance, with the objective of the work being to provide assurance that controls were in place and operating as expected to ensure that the capitalisation of eligible revenue costs was correct and consistent.

Following our audit, we were able to give an opinion of **Reasonable Assurance** because:

- Guidance on capital and capitalisation had been made available to services by Finance. While each form of guidance had been amended independently by services over time, the information was found to be complete, up-to-date, consistent and in line with International Accounting Standards;
- Capital budgets were found to be subject to regular (i.e. monthly) monitoring. This monitoring was undertaken in conjunction with a review of revenue budgets within the same service area in order to identify potential areas of revenue spend which could be capitalised; and
- Decisions in relation to capitalisation were found to be well documented with appropriate evidence being maintained and a clear audit trail for decisions being provided.

We agreed an action with management to improve the provision and updating of corporate guidance available on the intranet for all employees because published guidance was found to be incomplete and had not been reviewed for several years. We also agreed that a common method to calculate capitalised costs for employee expenses would be of value.

Communities and Prevention 2020/21

The Communities and Prevention team was established to develop the community-based support related to Adult Social Care (ASC) and embed the council’s preventative agenda.

The team supports the Practice Improvement Transformation Programme, which forms one of six ASC Transformation Programmes. It has also supported the Health and Wellbeing Strategy, specifically Priority 1 of the Strategy which is about supporting people to live healthy lives.

This audit reviewed the effectiveness of governance arrangements by:

- Assessing how the approved work plan clearly articulated how benefits are realised, considering the principles of co-design and design thinking, and with reference to short term outputs supporting longer term outcomes;
- Reviewing how robust the work plan was in context of defined performance objectives for the team, including how they collaborated with, and supported, the wider council strategy and engaged with the community;
- Ensuring that key milestones had been identified and stakeholder progress reports had been built into the work programme, including alignment with interdependent work streams/projects as required; and
- Providing assurance that regular progress reporting to stakeholders had been built into the work programme.

We gave this audit an overall opinion of **Reasonable Assurance**.

We concluded that the team's objectives had emerged broadly from the 'Community Vision for Surrey in 2030' and had been translated into a work plan, spanning support for the Health and Wellbeing Board (HWB), Empowering Communities and the Front Door project. We determined their work plan reflected effective collaboration and joined up working with the VCFS and HWB, Priority 1 - Prevention Board, where there was standing attendance and reporting on project work as scheduled.

Some of the transformative work is in early stage so specific milestones in relation to these have yet to be defined. Notwithstanding this, the team is a key contributor to the Front Door review planning document and the Programme Outline for the Empowering Communities Transformation Programme. We determined that whilst the team was recognised for their contributions to the communities agenda, their work did not always get the visibility and traction it may need and is not always shared and connected to other teams to enable a wider contribution across related teams within the council.

The impact of actions within the work plan appear to be difficult to define due to their long-term, preventative nature and the challenge to define quantifiable outcomes. We suggested considering an additional 'what does success look like' section for each action. We are pleased to note that a draft of this has been adopted, within the Impact Dashboard.

We agreed actions with management in relation to the issues raised above, and also in relation to the use of the residual unspent monies within the £80k original budget allocation from ASC Transformation.

Early Years and Education System (EYES) 2020/21

There are several Liquidlogic products in use across the council, including the Children's Social Care System (LCS) and the Early Help Module (EHM). Following an exercise to re-procure an Education Management System (EMS), a project to implement the Liquidlogic Early Years and Education System (EYES) commenced in September 2020.

Our review of the implementation of EYES was designed to provide assurance that key controls are in place to meet objectives, including:

- A robust governance structure was in place to support the programme with risks being appropriately identified, evaluated, and managed;
- There was sufficient planning and preparation to support the project and ensure it meets service needs, including relationships and dependencies with other systems;
- All aspects of system security, including user access, authentication, and authorisations were addressed;
- There were plans in place to ensure the system was fully tested, with feedback addressed and any issues resolved prior to going live, covering issues relating to data cleansing and migration; and
- There were clear plans for staff training and post-implementation quality assurance checks to ensure continued delivery of services post-project.

We gave this audit an overall opinion of **Substantial Assurance**. The programme was operating with a high level of transparency and there was clear, open communication between all officers. A robust governance structure had been developed, with a Programme Board, Steering Group, and Working Group established.

All aspects of project delivery had been taken into consideration during the 'set up' phase, demonstrated in detailed plans, timelines with key milestones, and RAID (Risks, Assumptions, Issues, Dependencies), action, and decision logs. All of the controls outlined above are documented and stored in a central repository on SharePoint. Review of these files confirms there was a consistent file management structure and relevant documents were kept up to date.

Configuration and user testing for EYES and LIFT (Liquidlogic Integrated Finance Technology) is already underway, allowing time to address feedback that incorporated both business and technical aspects. Options for data cleansing and migration had been fully considered, leading to the creation of a new data quality team, which addresses data issues both during and after implementation of the systems. The importance of user training and engagement had been acknowledged since the outset of the project.

Financial Assessments & Income Collection (FAIC) 2020/21

The Care Act 2014 provides a framework for local authorities for charging for care and support services. The Financial Assessment and Income Collection (FAIC) team are responsible for calculating the charges for residential and community-based services provided by Adult Social Care throughout Surrey, assessing the appropriate charge, and providing welfare benefits advice and assistance.

The FAIC review forms part of the agreed annual plan as it is identified as a key financial system of the council. The purpose of the audit was to provide assurance that controls are in place to meet the following key objectives:

- Client contributions were correctly calculated, received in full, and accurately recorded;
- Regular quality checks were undertaken to ensure potential errors were identified and amended in a timely manner;
- Action was taken to recover aged debt in line with current policy;
- There was appropriate managerial review of aged debtors;
- Assurance was gathered that write-offs are managed correctly; and
- Effective controls operated around authorisation and reporting of refunds.

We were able to give **Reasonable Assurance** over the FAIC system because, despite the impact of the pandemic and changes to the way in which assessments have had to be completed, the control environment remained strong and fit for purpose.

All financial assessments since April 2020 have been completed remotely either through the council's online financial assessments tool and video, or telephone calls. Any delays in completing financial assessments were reflected in the backdated charges analysis.

Officers in the collection team received a daily debt management report generated from SAP which reflected the balance outstanding and the dunning level, with each debtor was assigned to a locality officer. The results of our testing showed that controls were operating as expected.

The Care Debt report from SAP provided an analysis of secured and unsecured debt, debt relating to deceased service users, total live credit balances, total deceased credit balances, cases referred to legal, percentage payments collected by direct debit and debts written off. Whilst no KPIs have been set, given the current pandemic, from testing we concluded that there is effective scrutiny and management of debt.

Overall good practice was observed and effective controls and governance were in place; however, some opportunities for improvement were identified and appropriate actions were agreed with management, including in relation to the way in which locality target performance figures are utilised, and in relation to the process around the issue of low value refunds.

Property Asset Management System (PAMS) Income (follow-up) 2020/21

The council receives income for various types of owned properties and land in its estate. This income is accounted for in SAP, the council's financial ledger, and recorded and managed in the authority's Property Asset Management System (PAMS). Our previous audit of PAMS Income processes reported in September 2019 and led to an opinion of partial assurance due to weaknesses in the control environment. That audit included one high priority action and six medium actions, which were agreed with management. This follow-up audit specifically examined progress against implementing these agreed actions.

As a result of our work we have still only been able to provide **Partial Assurance** over the degree to which the agreed actions from the last audit have been implemented. This is because:

- Since the last audit the authority has procured a new system (PLANON) to manage its property function, which will replace PAMS on implementation. Due to this development the service has deferred addressing some of the agreed actions from our previous report until the new system is implemented. The level of risk associated with deferring these actions is considered to be moderate as high priority actions have been addressed;
- Improvements had been made to master data held within PAMS. Testing undertaken on a sample of PAMS customer records found that information recorded was current and reflective of master data held on SAP;
- There was no Service-Level Agreement between the Recovery Team and the Estates Team to support the recovery of overdue rental costs (an agreed action from the previous audit was to set-up a Service Level Agreement to this effect). However, a review of a sample of customer accounts with debt balances provided assurance that overdue balances are being identified, managed and recovered;
- There had been no progress made regarding updating procedure notes for both property management and recovery of overdue income. There is an opportunity here for the service to ensure procedure notes for the PLANON system are put in place earlier.

Allowing for the forthcoming implementation of PLANON, we agreed three actions with management, with the most significant and highest priority one being around the input of rent review dates into PAMS.

Public Health Standard Operating Procedures

To effectively respond to the COVID-19 crisis and achieve Surrey's Local Outbreak Control Plan goals, the council developed COVID-19 Standard Operating Procedures (SOPs). These SOPs provided advice and guidance for handling enquiries and for communication of key information to help manage COVID-19 outbreaks. These SOPs were designed to ensure clarity on roles, procedures and responsibility for all partners and detail guidance and actions where necessary to support COVID-19 management.

We were asked to undertake a review of the SOPs by senior management in Public Health: this was in view of the fact that the nine separate SOPs were created during the early stages of the pandemic and it was therefore a timely opportunity to review whether they remain relevant since the COVID-19 situation has evolved.

The purpose of our review was to provide assurance that controls were in place to meet the following key objectives:

- Clear processes existed to support officers managing enquiries to enable a consistent and coordinated approach across Public Health;
- Local authority guidance and outbreak plans were aligned with the SOP to ensure minimum standards were met, including in relation to the management of information;
- Checks were undertaken to ensure that key data used to support decision making was accurate and timely; and

- Risks of reputational damage, challenge to, or criticism of the council's response to enquiries relating to COVID-19 were minimised.

The work completed was reported to Public Health in the form of a position statement without an opinion, as the purpose of the exercise was to bring to the attention of management any areas for revision or improvement using Internal Audit as a critical lens. We provided feedback on the SOPs covering the following areas:

- Incomplete statements – missing key information that was unavailable on the original draft of the documents, changed file-paths or hyperlinks;
- Outdated information – information not now relevant or current, both from Government and/or internal sources;
- Structure and format – covering the consistency of the SOPs and use of acronyms;
- Procedural failure potential – where the SOP requires certain basic evidence to be recorded or obtained for a log entry or return;
- Data Security – to ensure the SOPs remain compliant with GDPR requirements; and
- Best Practice Improvements – including the correction of basic errors of spelling or removing ambiguity.

Based on the analysis above, we provided a checklist of findings to Public Health to review and consider in the revision of the SOPs to maintain their fitness for purpose.

Procurement Advice for Land & Property

During the summer and autumn of 2019, the Council undertook mini competitions, from a preapproved framework, for the selection of contractors for four replacement flat roofs. Following a successful legal challenge from one of the contractors relating to this exercise, Internal Audit was asked to review the processes that had been followed to determine the chain of events that led to the award of the contracts. The review also sought to identify any lessons that could be learned from this exercise to help strengthen the control environment in the future.

The purpose of the review was to provide assurance that controls were in place to meet the following objectives:

- Commissioning and procurement arrangements complied both with statutory and council requirements;
- All potential conflicts of interest were identified and managed effectively; and
- Commissioning and procurement arrangements were transparent and delivered value for money.

Overall, a range of actions were identified and agreed with management to help improve future arrangements across commissioning, procurement, training and performance management aspects of the process.

Digital Business & Insights Programme (DB&I) - Data Governance and Migration

The Digital Business & Insights Programme (DB&I) aims to deliver a transformation programme by either upgrading or replacing the existing SAP system at the council. Following a procurement exercise, Unit 4 was identified as the new replacement system, that it is anticipated will deliver efficiencies as part of the transformation agenda.

The current SAP system will not be supported beyond 2025. The system contains a significant amount of core data for the council, which will need to be reviewed to determine what data needs to be available outside of the system and what needs to be migrated into its replacement.

The primary objective of our audit was to provide assurance that effective governance and control arrangements were in place for the data archiving and data migration projects that form part of the DB&I Programme.

Based on the results of our testing, we were able to provide **Reasonable Assurance** for the following reasons:

- Data owners for all the process areas within the new ERP solution (Unit4) were found to be appropriately assigned, with the roles and responsibilities for both the migration and business as usual clearly documented;
- A Data Migration Strategy has been developed, which provides a detailed overview of the whole data migration process, including the steps involved (including data cleansing), scope for the project, roles and responsibilities and risks;
- An outline business case and Project Initiation Document (PID) have also been created to support the archiving of data from the SAP system. While the procurement for this solution is ongoing, the PID provided detail regarding the strategy and design principles being used for data archiving; however
- A review of some of Business Requirements Solution Design documents found that staged processes could result in the council holding personal data incorrectly, which would be a breach of GDPR.

In all cases, actions have been agreed with management to mitigate against all risks identified during our work.

Digital Business & Insights Programme (DB&I) - Programme Board Support

Internal Audit has agreed a package of assurance work with the Programme Board and has also provided ad-hoc advice and guidance on risk, control and governance issues. A highlight report is produced and presented to the Board at each meeting updating them on the progress of our work.

Grant Certification

During quarter four the following grant claims have been successfully certified by Internal Audit in accordance with Government and/or EU grant requirements:

- Track and Trace (COVID-19) - £3,477,690
- Troubled Families Grant (latest cohort) - £236,000
- IMAGINE grant (EU NW) Semester 4 - €44,023
- Interreg (EU) Digi-Tourism grant Semester 5 - €11,380

Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

Internal Audit have co-ordinated the recent submission of Council datasets to the biennial NFI exercise. Results from the data matching were provided to the Council on 31 January 2021. Internal Audit have been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

Counter Fraud Policies

Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud.

Fraud Risk Assessments

Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the pandemic. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

Fraud Response Plans

The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme.

Fraud Awareness

The team are continuing to monitor intel alerts and the latest fraud bulletin is currently on the Council's intranet.

Reactive Counter Fraud Work - Summary of Completed Investigations

Internal Audit provided advice following an allegation that a member of the public was impersonating a councillor through online communications. The service reviewed the format of online forms on the council website and made enquiries with neighbouring authorities.

In addition, we have also provided advice and support in respect of several allegations of misuse of Direct Payments and logged an allegation relating to benefit fraud, that has been referred to the relevant agency for investigation.

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Audit & Governance Committee
18 June 2021

Risk Management

Purpose of the report:

To provide the Committee an update on the current risk management position and next steps to improve risk management across the organisation.

Recommendations:

It is recommended that the Council continue with progressing the risk management approach detailed in this report.

Introduction:

1. Risk management is a key component in the running of a successful organisation. The Audit and Governance Committee (AGC) require assurance that risk management activities are taking place in order to protect current assets and demonstrate that risks are understood prior to decisions being made.
2. External consultants Ernst & Young (EY) were brought in during 2020 to help further strengthen the Council's risk management arrangements. After a number of meetings, a series of updated high level corporate risks were initially identified. These were brought to the last AGC committee and approved.
3. To continue the work around risk and promote a risk culture within SCC an interim Risk Manager was recruited to take over the activities of EY. David Mody joined at the end of March 2021.

Current Position and Phase 1 activities

4. SCC have recognised that there is a need to continue to improve risk management. Of specific note:
 - 4.1 Some parts of SCC need to demonstrate evidence that risk management is taking place.
 - 4.2 Some parts of SCC undertake risk activities (demonstrated through the use of risk registers). However, there is a need for greater consistency in the way the risk registers are being compiled. For example, some registers do not detail the cause(s) of the risks, while others reflect a variety of risk scoring scales such as 1-4, 1-100, high/medium/low.
 - 4.3 While updated strategic level risks have been proposed by EY, they need to be developed into a formal risk register. For example, there should be an allocated risk owner and mitigations specified.
 - 4.4 There hasn't been the resource capacity within SCC to provide the specialist support and guidance to staff on how risk management should be undertaken.
 - 4.5 There is an opportunity to update the risk framework detailing the process for how risk management should be undertaken.
5. A number of activities have been initiated to improve risk management based on the above findings and these can be split into 3 main components outlined below. These can be regarded as Phase 1 deliverables. It should be noted at this point that each member of CLT has met with the Risk Manager and been taken through the Phase 1 approach. Each CLT member has endorsed the approach and been very supportive.
6. An updated standard risk register template has been created. The template allows for a consistent view of risk across the organisation and provides managers with a clearer overview of their risks. The template is being rolled out to capture Corporate level risks, Directorate level risks as well as Service impacting risks.
7. To promote a risk culture a number of 1-2-1's are being undertaken between the Risk Manager and SCC Managers. The purpose is to :
 - 7.1 Explain the principles of risk management and provide coaching for those who are less familiar with risk management techniques.
 - 7.2 Introduce the risk register template and how best to capture risks.
 - 7.3 Go through some real-life examples of risk related to that part of the organisation to demonstrate the practical use of risk management.
 - 7.4 Encourage thinking about risk with a view to having more action orientated mitigations with associated target dates for completion.
 - 7.5 Promote the continued use of risk management with regular reviews and updates of the risk register (and remove the thought that it is a one-off exercise).
8. A refreshed risk framework document is being developed. This is a key governance document and will detail the process of undertaking risk management in SCC along with the key roles and responsibilities.

Next steps

9. The strategic risks are currently being reviewed and formalised into a revised/updated Corporate Risk Register to include the current controls and actions to mitigate the risks. It is expected that a first version of the revised/updated Corporate Risk Register will be brought to the next AGC committee (in July 2021).
10. The promotion of risk management and culture through undertaking risk 1-2-1's is expected to continue through until October 2021. This will result in a number of revised Directorate and Service level risk registers. The output will also help shape a more effective risk framework document.
11. A refreshed risk framework document will then be brought to the following AGC (in October 2021) for review and approval.
12. A second phase to risk management is also envisaged. While this will largely be dependant on the successful implementation of the initial phase it is expected that Phase 2 will focus on reviewing the appropriateness of a central risk management database (and implementing if warranted), defining the risk appetite of the organisation and further embedding the risk culture.

Conclusions:

13. SCC recognises that there is an opportunity to make improvements to its' application of risk management. A Risk Manager is now in place and activities and being undertaken to achieve this.

Financial and value for money implications

14. There are no additional costs for Phase 1 other than the Risk Manager.

Equalities and Diversity Implications

15. N/A

Risk Management Implications

16. Failure to implement effective risk management will reduce the quality of decision making within SCC. Moreover, the AGC will not be able to demonstrate that it is discharging its' governance responsibility of having active risk management within the organisation.

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Audit & Governance Committee
18 June 2021

2020/21 Draft Annual Governance Statement

Purpose of the report:

This report presents the draft Annual Governance Statement, which summarises the council's governance arrangements for the financial year ending 31 March 2021.

Recommendations

It is recommended that the committee:

1. Review the contents of the draft Annual Governance Statement (Annex A) to satisfy themselves that the governance arrangements are represented correctly; and
2. Commend the draft Annual Governance Statement for publication with the council's Statement of Accounts.

Introduction

- 1 The council is required to annually review the effectiveness of its governance arrangements and produce an Annual Governance Statement. Once signed by the Leader of the Council and the Chief Executive, the Annual Governance Statement is incorporated in the Statement of Accounts.

Annual Governance Statement 2020/21

- 2 The 2020/21 draft Annual Governance Statement is attached at Annex A and includes:
 - A summary of the key activities during the year and the main elements of the governance framework;
 - An update on the actions taken on the key issues identified in the 2019/20 AGS; and
 - An action plan for the issues identified in this year's AGS.

Consultation

- 3 The Governance Panel, Executive Director of Resources, Director of Law and Governance, Chief Executive and Leader of the Council have been consulted and their comments are incorporated.

Implications

- Financial**
4 There are no direct financial implications arising from this report. Continued improvements in governance will support the delivery of the council's objectives.
- Equalities**
5 There are no direct equalities implications of this report.
- Risk management**
6 Strong governance arrangements support the council in the effective delivery of services and achievement of objectives.

What happens next

The Annual Governance Statement will be signed by the Chief Executive and the Leader of the Council and then incorporated into the council's Statement of Accounts for 2020/21.

REPORT AUTHOR: Paul Evans, Director of Law and Governance and Chair of the Governance Panel

CONTACT DETAILS: paul.evans@surreycc.gov.uk

Sources/background papers: Code of Corporate Governance. CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21

Surrey County Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, that there is a sound system of governance, appropriate controls are in place and that public money is safeguarded and properly accounted for. This Annual Governance Statement describes the key activities during 2020/21, progress against key issues raised in last year’s governance review, summarises the main elements of the council’s governance framework and identifies key areas of focus for 2021/22.

2020/21 context

During 2020-21, the council faced unprecedented challenges brought about by the Covid-19 pandemic, which have fundamentally changed the context in which the council operates. In response to the impact of Covid-19, the council conducted an in-year reset of its budget, strategic frame, and delivery plans to recognise that while the 2030 Vision remains the right destination, how we get there needs to change. Through the council’s response to Covid-19 several organisational priorities have come into sharper focus and these priority objectives form a new focus for the council and a basis of a refreshed Organisation Strategy.

OUR FOCUS FOR THE NEXT 5 YEARS 2021 - 2026



We want Surrey to be a uniquely special place where everyone has a great start in life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community and where no one is left behind. Where our economy thrives and grows, in balance with our beautiful natural environment. While many residents and businesses thrive in Surrey, not everyone has the same opportunities to flourish so our focus for the next five years will be guided by the principle of **tackling inequality and ensuring no-one is left behind**

PRIORITY OBJECTIVES

<p>Growing a sustainable economy so everyone can benefit Support people and businesses across Surrey to grow during the economic recovery and re-prioritise infrastructure plans to adapt to the changing needs and demands of residents at a time of financial challenges.</p>	<p>Tackling health inequality Drive work across the system to reduce widening health inequalities, increasing our focus on addressing mental health and accelerating health and social care integration to reduce demand on services while improving health outcomes for residents</p>	<p>Enabling a greener future Build on behaviour changes and lessons learnt during lockdown to further progress work to tackle environmental challenges, improve air quality and focus on green energy to make sure we achieve our net zero targets</p>	<p>Empowering communities Reinvigorate our relationship with residents, empowering communities to tackle local issues and support one another, while making it easier for everyone to play an active role in the decisions that will shape Surrey’s future</p>
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TRANSFORMING THE COUNCIL

<p>Customer experience We will make people’s experience of dealing with the council quicker, easier and better by managing enquiries in a more efficient, proactive and connected way and increasing digital self-service options.</p>	<p>Stronger partnerships We will focus on building stronger and more effective partnerships with residents, other public services and businesses to collectively meet challenges and take opportunities</p>	<p>Transformation and reform We will continue our comprehensive transformation programme to improve outcomes for residents, deliver efficiencies and make sure financial sustainability underpins our approach</p>	<p>Digital and data We will embrace digital solutions and take a data-driven approach to transforming our organisation and services we deliver for residents</p>	<p>Agile, diverse and motivated workforce We will embed new agile ways of working and provide staff with the tools and support to be high performing and outcomes-focused. We will put equality, diversity and inclusivity at the heart of everything we do, valuing the strength of a diverse workforce</p>	<p>Financial management We will spend our money in the most efficient and effective ways, so we can have the greatest impact on improving people’s quality of life and ensure we provide the best value for money to our residents</p>
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To find out more about our priorities and read our full Organisation Strategy please go to www.surreycc.gov.uk

Despite the challenges, the council adapted quickly during the year to continue to deliver the majority of services for residents, whilst also working as part of Surrey’s Local Resilience Forum (LRF). The work of the previous two years put the council on a strong foundation and has enabled us to continue providing services while making efficiencies.

The strategic reset has also enabled us to enhance or adapt our approaches based on the learning from our response to Covid-19, building on the increased community spirit that has emerged to develop new ways of working with communities and longer term, consider how public services can enable better outcomes for the people and place of Surrey. The council will continue to play a key role in managing the emerging challenges, being prepared to amend the strategic direction where necessary and maintain a crucial role in the continued response and recovery.

Covid 19 – ongoing response

Robust governance arrangements were developed at the beginning of the pandemic, with clear reporting and escalation to ensure effective and swift decision making in response to COVID-19 activity. A process for capturing, recording, and reporting COVID-19 costs and risks was put in place to ensure a robust process with a clear audit trail.

The council implemented arrangements to enable remote committee meetings to take place so that Members could continue their decision-making roles. Any decisions that were taken under delegated authority have been published on the council's website, reviewed by the Audit and Governance Committee, and reported at the monthly Cabinet meeting.

The council has undertaken a phase 1 lessons learned review, the objectives of which were to recognise the strengths of emergency response activity to date, identify opportunities to improve practice in the short-term, facilitate transition into restoration and recovery; and strengthen the council's corporate resilience in readiness for future emergencies. Interviews were conducted with senior managers from across the council who had played an important role in the council's response to Covid-19. The review underlined the many strengths of the council's response, which offer a strong foundation upon which the council can increase its corporate resilience.

Community Impact Assessments (CIAs) have been produced, linked to the LRF Recovery Coordinating Group, which tell the story of Covid-19 and seek to understand the impact Covid-19 has had on communities in order to enable targeted short-term support and mitigations for the future.

Financial Management

The last decade has provided a particularly challenging landscape for Local Government finances, continued reduced funding coupled with ever increasing demand for services. 2020/21 was a particularly difficult year due to the pandemic, which saw costs rise and income fall. Albeit assistance was provided from Central Government, it continues to challenge how we provide services in the future and what the new post-COVID normal will look like. The ongoing pandemic creates an element of uncertainty particularly at a time when we are continuing to receive one-year only funding from Government. This was the case in 2020/21 and will be the case for 2021/22.

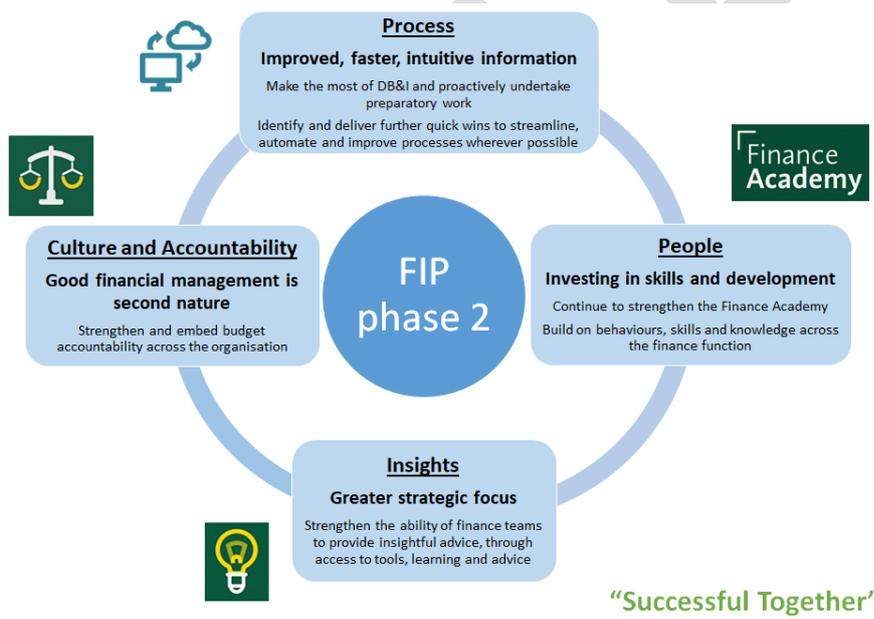
Despite this, collectively the council has worked incredibly hard to ensure costs and income are managed effectively to achieve a surplus position. The council has continued to focus on a smaller set of priorities, as outlined in the Organisation Strategy, meaning a better alignment of resources and activity to deliver the outcomes that will make the most difference to the lives of residents, and ensuring this is done in the most financially sustainable way.

Success should be measured against the positive impact on the residents of Surrey on the delivery of priority objectives and the considerable investment made over the last 2 years with the transformation agenda.

For the third successive year, the council prepared a budget which did not rely on the use of Reserves to balance the budget, allowed for continued investment in the Transformation programme and created a Feasibility Reserve which will support increasing investment in the community. The contingency and Reserves have been built year-on-year to provide flexibility and enable a risk managed approach to support financial sustainability in the medium-term.

As part of our journey for continuous improvement, the council’s Finance Improvement Programme (FIP) was closed in June 2020 and FIP Phase 2 was launched. The success that was FIP Phase 1 culminated in a CIPFA Public Finance 2020 award with the Finance Team receiving a “Highly Commended” accolade.

The four cornerstones of the next phase of the Improvement Programme are: Improved, faster and more intuitive data; further investment in upskilling of staff; providing greater insights and strategic focus and inciting a culture of good financial management which comes with clearly defined and understood accountability.



As part of striving for financial excellence the draft 2019/20 Annual Accounts were produced by 31st May despite the challenges of COVID. Grant Thornton, the council's external auditor, commented on the strides the council had made in one year to increase both the timeliness and quality of the Accounts. A much-improved Value for Money (VFM) conclusion was received which no longer (after some years) provided an adverse conclusion due to financial resilience.

Transformation

The progress the Council has made in recent years has been underpinned by an ambitious and effective approach to transformation. Since its inception in 2018/19 the Transformation Programme has improved vital services for residents, introduced innovative new service models, built capacity

and competency, and made a significant contribution to stabilising the Council's finances. This includes the achievement of £74m of ongoing efficiencies by the end of 2020/21 and containing costs in areas of growing demand, thereby ensuring we can operate within available resources and protect investments in key services. We review and refresh the Transformation Programme annually, ensuring we continue to build on and improve what we do for our residents.

We continue to use robust assurance mechanisms, co-ordinated through the Transformation Support Unit, to track delivery of the transformation programme. Transformation governance arrangements are in place to oversee this including a Member Transformation Assurance Board (Chaired by the Leader of the Council) that meets monthly to help shape and review the overall portfolio of change, along with Select Committees continuing to inform and scrutinise programmes within their respective remits.

Systems and Process Transformation

The Digital Business & Insights (DB&I) Programme is enabling the council to achieve its ambitions to drive service transformation, improve management decision making, deliver sharper insight, and move to a more flexible and mobile workforce. The design phase of the programme has been completed and we are now in the build phase, with go live in December 2021.

The Executive Director of Resources (Section 151 and Senior Responsible Officer for the Programme) chairs the Strategic Programme Board comprising corporate directors, directorate leadership and programme delivery leads, which sponsors the transformation, makes strategic decisions, allocates resources and ensures the effective management of escalated issues and risks.

Workforce

Inevitably, the focus in 2020/21 has been to support the council through the Covid pandemic. In particular, and in response to the council's strategy to keep staff and communities safe and to keep critical services running, we very quickly mobilised staff across the council alongside redeployment of SCC staff to support the Local Resilience Forum. Of note is our contribution to the creation of a new community hospital; NHS Seacole Centre, where we worked with District, Borough and Surrey Heartlands ICS colleagues to stand up the new facility in record time.

Within the council, a significant focus continues to be on staff wellbeing, particularly mental health, with extensive support provided to help our workforce manage anxiety, stress, fatigue, and isolation. Ongoing monitoring of Covid related and other staff sickness absence is reported on a weekly basis, together with the recording and reporting of staff vaccines.

In tandem with the considerable amount of work undertaken to maintain service delivery during the pandemic, a significant transition to home and remote working has been successfully achieved in 2020, to ensure staff who previously were required to attend an office space were equipped to work remotely, reducing the footfall in council buildings. This not only enabled us to keep staff as safe as possible and reduce the spread of Covid 19, but also laid the foundations for future working and the successful move out of County Hall, despite the national lockdown.

This cultural shift is the progression of the work that started in 2019/20 through the council's Agile Transformation Programme, but which has seen real acceleration during the last year, with staff adopting different working practices and using technology to facilitate virtual collaboration. There

has been a surge in online communications through the council’s internal Jive platform (alongside correspondence sent to people’s home addresses for those staff without access to SCC systems), where practical information, advice and support is shared. This has transformed how the council works now and, in the future, and has delivered a real cultural change towards a more collaborative, modern, and agile organisation.

Leadership has remained a vital element in the growth of our people over the last year, with an increased focus on supporting managers at all levels (and with an emphasis on leading remotely and in an agile environment), through the introduction of a new Leadership Hub, consisting of a range of development opportunities for everyone in leadership roles, from new managers through to executive directors.

We have re-doubled our efforts to provide entry to work schemes for our young residents, including our participation in the new Kickstart programme, which aims to support young people aged 16-24 who are at risk of long-term unemployment into work. We are targeting our focus on the young people who we know often face barriers in transitioning to the workplace, e.g., Looked After Children, Care Leavers, NEETs and young people with SEND, and have offers across the council for 42 places to start from April 2021.

Finally, the latter part of 2020/21 has seen the development of our new workforce strategy: Workforce of the Future. This is ambitious and future focussed and recognises that the workforce we need in the future will be strongly influenced by the economic, social, demographic and technological trends we are seeing emerge at a local, national and global level. The pace of this change and the impact it has on work has accelerated due to the pandemic and it is critical we respond to be a modern employer that can attract the best talent and maximise the contributions of its workforce, for the benefit of Surrey’s residents.

The strategy, which will be delivered in an agile way through a series of pilot projects to trial new approaches, in parallel with work to develop the necessary enabling capability and capacity (e.g., skills, policies, processes), has five key areas of focus:

- Workforce insight & management
- Strategic workforce planning
- Work & job design
- Resourcing
- Employee experience

The strategy’s overarching vision is for the council to “Be representative of the communities we serve; a place where people aspire to work, where everyone feels able to bring their whole self to work and know that they are making a difference every day. We will be at the forefront of innovation and best practice in people management to ensure that we maximize the value of our workforce in a rapidly changing world. We will have high expectations of our staff, and in turn invest in them and offer a compelling employee value proposition.”

Equalities, Diversity and Inclusion (EDI)

The council is starting to take a broader, more radical approach that embeds EDI into everything we do. The new Action Plan sets out a vision for EDI that changes the processes, systems and behaviours affecting the experiences of all Surrey residents and staff who work for the council. The plan is a living document that will continue to evolve as we make progress and as our strategic context

changes. A Corporate Leadership Team sponsor for this work will be the accountable officer for implementing the plan.

A new EDI Policy Statement has been developed that clearly sets out our commitment to embedding EDI in all our activities and what this means for residents, Members and staff. It confirms that the authority will take a zero-tolerance approach to bullying, harassment and discrimination and that it will deal with any incidents of such behavior decisively.

This year has seen our existing networks flourish, (Women's and Early Careers), as well as the launch of a raft of new networks, e.g., Parents and Carers, MEGA (Minority Ethnic Group & Allies), Disability, LGBTQI+ and Men's Networks; the networks are proving hugely valuable in helping us to better understand and respond to the challenges (and opportunities) faced by our diverse workforce. Alongside this, we launched unconscious bias and anti-racism training as well as targeted development for specific staff groups and elected Members.

Major Procurement Governance

The Procurement Service operates under The Public Contracts Regulations (PCR) 2015, these regulations are reinforced and embedded into the Councils constitution via the Procurement Standing Orders (PSOs).

The council spends approximately £900 million per annum on third party goods and services. Each procurement project that is run by the council is assessed for project complexity and contract management. All projects over the PCR threshold are included on the Procurement annual forward plan, which is approved annually by Cabinet.

All Procurement projects undergo two internal governance checks in addition to the PCR regulation report, the first check is undertaken prior to any approach to the external market to validate the approach and procurement process, the second and final check is completed prior to any award decisions being undertaken, which includes, as a minimum, sign offs from the stakeholder, legal and finance.

Service specific governance considerations:

In addition to the organisation-wide areas discussed above, there are several service specific governance arrangements to consider:

Children's Services

Following the major restructure of children's services completed in 2019, the improvement programme has continued in 2020 throughout the Covid-19 pandemic and while some resources have shifted to support other parts of the service, improving frontline practice is critical and it remains a priority for the CFLLC directorate. The improvement programme is in the final year of delivery and is embedding the new ways of working to ensure profound and rapid improvements to children's services in Surrey so that all children in the county receive the right help at the right time.

With agreement from the Department for Education (DfE), Essex County Council has been appointed as a Partner in Practice (PiP) for Surrey's children's services. Essex CC is rated as 'Outstanding' for Children's Services and specialises in working alongside other authorities to improve social work practice, and outcomes for children and their families. In September 2020 a full stocktake of our services was carried out and initial feedback shows how far the council has come since 2018 and has reinforced our improvement plans and the priorities set out in the 'Getting to Good' plan.

Ofsted inspectors were 'virtually' on site during March 2021 to review how well our children's social care has been delivering child-centred practice and care within the context of the Covid-19 restrictions. The inspectors acknowledged our significant improvement journey, the council's commitment to driving forward the required changes and the fact that progress continued, notwithstanding the challenges of the past year. Inspectors saw several service changes which are having a positive impact on outcomes for children and families and recognised senior leaders' swift response to the challenges of the pandemic. As well as recognition of areas of progress, there are some areas for further improvement, which reflect aspects that we had identified ourselves in the self-assessment and which the service is already addressing.

Health Partnerships

The health and care system in Surrey is complex, with a complicated governance architecture across multiple NHS partnership boundaries. There are many meetings needing attendance and servicing which have contributed to making working towards closer integration between the County and the NHS challenging. During 2020/21, the Council and NHS partners have worked in close partnership to coordinate and deliver our operational response to the pandemic, including coordination around hospital discharge, supporting care homes to implement infection control procedures, managing health and care outside of hospital settings and supporting the testing and vaccination programmes, including insight generation to ensure equitable uptake of both testing and vaccines in harder to reach communities. During the year the Surrey Heartlands Integrated Care System (ICS) commissioned a review of governance processes to streamline the governance framework. This work was superseded by the publication of a government White Paper, 'Enabling Innovation and Integration' which proposes legislation to disband Clinical Commissioning Groups and establish ICSs as legal entities, which will assume many of the statutory responsibilities previously held by CCGs. The legislation is expected to be implemented from April 2022 and may lead to new responsibilities and new ways of working for the Health and Wellbeing Board in relation to the component parts of the ICS.

Surrey Heartlands ICS has restructured its executive team and now includes two joint appointments with the Council - the Executive Director for Public Service Reform and the Executive Director for Integrated Commissioning and Adult Social Care.

Considering the impact of the pandemic, the Health and Wellbeing Strategy was refreshed to bring a more explicit focus to addressing health inequalities and ensuring an equitable recovery from the Covid-19 Pandemic.

Organisational Governance

The covid pandemic led to the implementation of new decision-making arrangements within the Council through remote meetings. Additional emergency delegations were put in place by Council to ensure business could continue uninterrupted with the Audit and Governance Committee keeping these under review throughout the year. Member and public engagement benefitted from live webcasting of all meetings and the Council is supportive of being given the flexibility in future to hold remote meetings when appropriate. This will mean a proportionate approach which also recognises the value of face-to-face meetings to promote inclusivity, visibility and accountability in decision making.

The Council has strengthened its ethical framework with the adoption by Council of a new Code of Conduct for Councillors for the 2021 municipal year. In December 2020 the Council appointed 2 Independent Persons to consider any complaint made against members in a revised process to give

increased objectivity and openness. All members have received induction and training on the new Code and the declarations of interest required both generally and when making Council decisions.

A gap analysis of governance arrangements for Council companies has been undertaken further to recommendations of good practice. This concluded that current arrangements were good but would benefit from further work on the responsibilities of Council appointed Directors, greater clarity on the role of Council shareholder representatives and ensuring greater confidence in member oversight. These improvements will be implemented in 2021/22.

The annual review of governance policies and process carried out by the Council's Governance panel concluded that governance systems are in place with many being updated and improved throughout the year, however, accessibility, training and communication could be improved to give more confidence these were understood and embedded across the organisation.

In the year ahead the Council will meet the challenges and opportunities of its ambition to become best in class and an exemplar of good governance. This will be achieved by meeting all its governance duties through compliance with its legal, financial, procurement and other obligations, and in addition, by establishing a framework of behavioural characteristics and values to promote and assess good governance in all its forms.

The governance framework will emphasise the responsibilities of all members and officers, both individually and collectively, to create the self-aware, frank and reflective environment needed for good organisational governance for the long term. The solution will focus as much on values and behaviours, as it does on systems and process change.

Compliance and Risk

The council's financial management arrangements during 2020/21 fully complied with CIPFA's Statement on the Role of the Chief Finance Officer (CIPFA, 2010). The Executive Director of Resources (s151) met his financial responsibilities during the year and ensured financial management arrangements were in place. He reports directly to the Chief Executive and had regular contact with the Leader and key Members, Monitoring Officer, Chief Internal Auditor and other Executive Directors.

During the year the council completed a high-level assessment against the new CIPFA Financial Management Code (FM Code) standards. The review concluded that the Council demonstrates overall compliance with the standards with several areas exceeding the standards and a small number of improvement areas.

In 2020, EY were appointed as a risk management partner to review the council's risk management approach. Risk sessions were held with management teams and the output from a risk culture survey was reviewed to develop a high-level risk strategy, purpose and vision alongside a new strategic risk register. Progress updates were presented to the Audit and Governance Committee throughout the year.

The impact of the COVID-19 pandemic led to a partial suspension of the annual audit plan, and the service supported the needs of the organisation in a variety of ways. This included providing advice and assurance where processes and controls were changed to facilitate faster and different responses to pressures on services and providing assurance around the robustness of operating practices in key activities such as business continuity arrangements and COVID-19 response protocols. Remaining audit resource was prioritised to look at core financial systems and processes and to address emerging risks as the year passed.

Despite this disruption to planned work, the Chief Internal Auditor has determined that sufficient coverage has been achieved to provide Reasonable Assurance that the council has in place an adequate and effective framework of governance, risk management and internal control for the

period 1 April 2020 to 31 March 2021. Based on management responses to audits, and the implementation of actions agreed for improvement following them, significant effort continues to be made by the organisation to strengthen governance, risk management and internal control. Transformational programmes continued to deliver their anticipated benefits during the year, whilst a new programme is underway to redesign and replace the main accounting system that underpins the council’s finances. Ongoing audit work continues to support this programme and will also provide assurance that the newly relaunched risk management process is embedded across the authority.

2019/20 Annual Governance Statement Action Plan – Follow Up

Issue identified during 2019/20	Action taken during 2020/21
<p>Covid-19 Recovery Programme</p>	<p>An internal Operational Group consisting of senior managers from across the organisation, and co-chaired by the Executive Director for Corporate Resilience and the Director for Public Health has continued to coordinate Covid 19-related activity, identify and manage risk, and ensure effective information flows.</p> <p>The council continues to work with partner organisations to ensure on-going response activity is sustainably resourced and overseen by appropriate governance structures, including the council’s Corporate Resilience Group. This is further supported by the Local Resilience Forum Recovery Coordination Group.</p> <p>The council has also maintained a continuous focus on staff wellbeing, providing a range of resources, advice and guidance. Regular staff communications have clearly set out the council’s position on key issues, and a comprehensive risk assessment process has enabled the council to identify and put in place mitigations appropriate for individual staff members, including those most at risk.</p>
<p>Agile workforce Changing our culture and the way we organise ourselves as a council, as well as the practical aspect such as technology.</p>	<p>The Agile Organisation Programme has been fully established, bringing together HROD, Land and Property, IT&D and programme change to drive the adoption of Agile working.</p> <p>All teams have been engaged with to build their own plans for adopting Agile, with particular focus during 2020 on the move out of County Hall.</p>
<p>Children’s Services Greater focus on the impact of the Children’s Improvement Programme.</p>	<p>The Family Resilience improvement programme has continued in 2020 throughout the Covid-19 pandemic and while some resources have shifted to support other parts of the service, improving frontline practice remains a priority.</p>
<p>Performance Reporting and Risk Management Embedding the performance management and risk management frameworks.</p>	<p>EY were appointed during the year to develop the council’s approach to risk management and strengthen the risk culture. The project team met regularly to review progress and updates have been provided to Audit and Governance Committee.</p>

Issue identified during 2019/20	Action taken during 2020/21
<p>Land & Assets</p> <p>Improving the effectiveness, efficiency and commercialisation of the Land and Property function to ensure it supports service delivery to residents and organisational objectives for the council.</p>	<p>An improvement program was established in September 2020 and work commenced:</p> <p>Business Performance: assessing current processes and identifying improvement areas.</p> <p>Systems: Engaged with the implementation of the Integrated Workplace Management System and adding a user experience lens to deployment.</p> <p>People: Mapping current structures and engagements.</p>
<p>Governance</p> <p>Improvements to the council's governance including the Member Code of Conduct and Governance Panel.</p>	<p>A Member task and finish group was established over summer 2020 and recommended a new Code of Conduct for councillors to Audit and Governance Committee. The Standards complaints procedure has been revised by the task group and two new independent persons have been recruited.</p> <p>The Governance Panel meets quarterly to review governance across the council and an AGS action tracker has been established for reporting.</p>
<p>Digital Business and Insights Programme to enable transformative process improvements.</p> <p>To facilitate the transformation of our core processes through the replacement of the existing SAP corporate system</p>	<p>The DB&I project team, supported by subject matter experts from both the functional areas (Finance, Procurement, HR and Payroll) and the Directorates, have been working with our implementation partner Unit4, on the Design stage which was signed off by the Strategic Programme Board in January 2021.</p>
<p>Pensions Administration Improvement Programme</p>	<p>A pension administration "Turnaround Board" was established during the year to oversee the dissolution of the Orbis pension partnership, along with reversion to sovereign authorities including a review of the fundamentals for delivering pensions administration. The progress of this board is reported to the Chairman of the Local Pension Board and the Pension Fund Committee monthly.</p> <p>The pension administration team have made progress on improving areas highlighted by internal audit as having control weaknesses, including making significant headway in clearing down the backlog of legacy cases that had been built up over a considerable period.</p>

2020/21 Annual Governance Statement Action Plan

Issue identified during 2020/21	Action to be taken during 2021/22
<p>Childrens' Services</p>	<p>Continued focus on Children's Services improvement through oversight and scrutiny of action plans and ongoing activity.</p>

Issue identified during 2020/21	Action to be taken during 2021/22
To continue to make improvements in our Children’s Services.	
<p>Pensions Administration</p> <p>To continue improvements in the Pensions Administration service and integrate with the Pension Fund team.</p>	<p>The Pensions Transformation Programme will address planned improvements in people, process and technology. The new organisational structure will deliver a single team encompassing, investments, accounting, governance and administration for a sovereign Surrey Fund.</p>
<p>Governance</p> <p>To promote good governance not only through systems and process but emphasise behavioural characteristics and values.</p>	<p>A governance performance framework will be developed based on the organisational characteristics, behaviours and values which evidence good governance in all its elements, to promote high standards across the organisation.</p>
<p>Land and Assets</p> <p>Improving the effectiveness, efficiency and commercialisation of the Land and Property function to ensure it supports service delivery to residents and organisational objectives for the council.</p>	<p>A Land and Property “purpose and Strategy” program focused on the Council’s vision will be delivered, including:</p> <ul style="list-style-type: none"> -implementing Planon – an integrated property work management system, -a new project planning and risk framework for all capital projects, -a culture, values and skills project for all staff, -a new operating model for facilities management, -a review of finance, risk, audit recommendations, performance and stakeholder engagement
<p>Risk Management</p> <p>To continue to develop the councils risk management approach and embed across the organisation.</p>	<p>The risk management capabilities across the organisation will be developed with the implementation of risk assessments across the organisation and a standardisation of the approach. A risk framework will also be finalised to reflect the new risk management processes.</p>
<p>Company Governance</p> <p>To ensure Surrey CC companies meet best practice in oversight, planning and governance arrangements.</p>	<p>Further improvements will be made to the governance arrangements for Council companies including, business planning, oversight, training and development on the role and responsibilities of directors and conflicts of interest, risk management reporting and scrutiny.</p>

Tim Oliver
 Leader of the Council
 July 2021

Joanna Killian
 Chief Executive
 July 2021

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Audit & Governance Committee
18 June 2021

2020/21 Treasury Management Outturn Report

Purpose of the report:

This report summarises the Council's treasury management activities during 2020/21, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

Recommendations:

It is recommended that the committee:

- Note the content of the Treasury Management Outturn Report for 2020/21 and compliance with all Prudential Indicators.

Background:

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve Treasury Management half-year and annual outturn reports. This is the annual outturn report for 2020/21.
2. The Authority's Treasury Management Strategy Statement and Prudential Indicators for 2020/21 were approved at Audit & Governance Committee on 29 January 2020. The investment and borrowing of cash exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury management Strategy.
3. An economic commentary provided by our expert Treasury Management Advisors, Arlingclose is included in Annex 1

Treasury Management Annual Report 2020/21

Overview

4. On 31 March 2021, the Authority had net borrowing of £660m arising from its revenue and capital income and expenditure, an increase of £17m since 31 March 2020. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which represents the amount of capital expenditure that is not funded from capital receipts, government grants, third party contributions or revenue.

5. Net borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied, including minimum revenue provision. This is set out in table 1, below:

Table 1: Balance Sheet Summary

	31/03/20 Balance £m	2020/21 Movement £m	31/03/21 Balance £m
General Fund CFR	1,252	92	1,344
Less PFI Liabilities	(205)	19	(186)
Gross Borrowing Requirement	1,047	111	1,158
Less usable reserves and working capital	(404)	(94)	(498)
Net Borrowing Requirement	643	17	660

Note: Columns do not sum due to rounding

6. The Treasury Management Strategy for 2020/21, approved by Audit & Governance Committee in January 2020, continued the policy of internal borrowing wherever possible. This maintains borrowing below its underlying level by using available reserves and working capital to reduce the need for external borrowing. This minimises interest rate risks and keeps interest costs low.
7. The Council also manages cash on behalf of Surrey Police and Crime Commissioner, the balance of which was £11.6m as at 31 March 2021. The Council accounts for this as short-term borrowing. The treasury management position as at 31 March 2021 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31/03/20 Balance £m	2020/21 Movement £m	31/03/21 Balance £m
Long-term borrowing	436	(2)	434*
Short-term borrowing	222	51	273
Surrey Police	17	(5)	12
Total borrowing	675	44	719
Money Market Funds	(32)	(27)	(59)
Net borrowing	643	17	660

*Total long term borrowing is £444m. This includes £2.6m of Local Enterprise Partnership (LEP) loans and £6.1m of Salix which are managed outside of the Treasury Management Strategy.

Borrowing Activity

8. At 31 March 2021, the Authority held £719m of borrowing, an increase of £44m on the previous year. The sources of borrowing, interest rates and the year-on-year change is shown in table 3 below.

Table 3: Borrowing Position

	31/03/20 Balance £m	2020/21 Net Movement £m	31/03/21 Balance £m	31/03/21 Rate %
Public Works Loan Board (PWLB)	426	(2)	424	3.85
Banks (fixed-term)	10	0	10	5.00
Local authorities (short-term)	222	51	273	0.09
Surrey Police & Crime Commissioner	17	(5)	12	0.10
Total borrowing	675	44	719	

9. The Authority's primary consideration when borrowing money is to balance low interest charges and cost certainty over the period, while allowing enough flexibility to renegotiate a portion of the debt portfolio based upon changing strategic needs. The Authority has explored the potential for early repayment of the £10m bank loan at 5% but the penalties of early repayment are prohibitively high.
10. In keeping with these objectives, no new long-term borrowing was undertaken in 2020/21. The local authority inter-lending market was extremely liquid during 2020/21, due to uncertainty over cashflow during the first half of the year, and compounded by significant government support which benefitted local authorities' cash flow positions. This resulted in the over-supply of Local Authority cash and therefore the Council being able to borrow from other Local Authorities at very low interest rates (below the Bank of England Base Rate). Additionally, the Council's advisors, Arlingclose, forecasts that long-term borrowing rates will remain low over the next 3 years, therefore the strategy for the year was to continue to finance the Council's cash flow and borrowing requirements by using short term borrowing.

Investment Activity

11. The Authority holds invested funds, representing income received in advance of expenditure, plus reserves and balances held which have not been utilised for internal borrowing.
12. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
13. In furtherance of these objectives and given the continuing risk and low returns from short-term unsecured bank investments, the Authority has kept its cash balances and investments low throughout 2020/21 and invested funds principally in Money Market Funds to ensure liquidity. During the year, the Authority's investment balance ranged between £0.5m and £150m. The Council's average daily level of cash investments was £57.1m during 2020/21, compared to an average of £41.5m during 2019/20. The Council invests temporary cash surplus exclusively through the use of money market funds (MMF).
14. The year-end investment position and the year-on-year change is shown in table 4 below:

Table 4: Investment Position (Treasury Investments)

	31/03/20 Balance £m	2020/21 Net Movement £m	31/03/21 Balance £m	31/03/21 Rate* %
Money Market Funds	32	27	59	0.14
Total Investments	32	27	59	0.14

*weighted average rate earned in the year

15. The weighted average return on all investments the Council received in the year to 31 March 2021 was 0.14%. This compares favourably against a -0.07% average 7-day London Interbank Bid Rate (LIBID) for the same period.

Financial Implications

16. The outturn for interest paid, interest received and the minimum revenue provision are outlined in table 5 below.

Table 5: Revenue Implications of Treasury Management Activity

	Budget £m	Outturn £m	Variance £m
Interest Paid	18.9	17.7	(1.2)
Interest Received	(0.3)	(0.3)	(0.0)
MRP	16.1	16.0	(0.1)

17. The amount of the Authority's revenue budget required to be set aside for the future repayment of external borrowing is known as the Minimum Revenue Provision (MRP). This amount is calculated by reference to the Council's balance sheet as at the end of the previous financial year. The amount required for 2020/21 was £0.1m less than expected when the budget was set due to marginally lower capital expenditure in 2019/20.
18. The variance of £1.2m on interest payable relates primarily to the Council's continued short-term borrowing strategy. This resulted in rates payable lower than those assumed when setting the 2020/21 budget.

Compliance Report

19. All treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits, the authorised limit and operational boundary for external debt, is demonstrated in tables 6 & 7 below.

Table 6: Debt Limits

	2020/21 Max £m	31/03/21 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Total			1,223	1,723	
Less: Other long term liabilities (PFI)			(136)	(136)	
Underlying Borrowing	765	718	1,087	1,587	✓

20. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not considered a compliance failure. Total debt did not exceed the operational boundary at any point in 2020/21.

Table 7: Investment Limits

	2020/21 Maximum £m	31/03/21 Actual £m	2020/21 Limit £m	Complied
UK Central Government	0	0	Unlimited	✓
Money Market Funds	150	59	150	✓
Any group of pooled funds under the same management	0	0	25	✓
Any group of organisations under the same ownership	0	0	20	✓
Any single organisation, except the UK Central Government	0	0	20	✓
Unsecured investments with Building Societies	0	0	10	✓

Treasury Management Indicators

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

Security: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard is therefore given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis. No investments will be made with an organisation if there are substantive doubts about its credit quality. In addition, if insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other Local Authorities.

Liquidity: The Council manages its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments. The Council maintains a bank overdraft of £100,000, utilises overnight access Money Market Funds and accesses short term borrowing to meet cash flow requirements. The Local Authority market provides readily available funds.

Interest Rate Exposures:

The Council currently has £273m of short-term borrowing with an additional £63m expected to finance the 2021-22 capital programme, which would result in a total of £336m by March 2022. Short term borrowing is subject to variable interest rates linked to the Bank of England (BoE) base rate, meaning it is subject to interest rate risk if the base rate increases. The Council's Treasury Management advisor Arlingclose has not forecast an increase in interest rates in the short term so this scenario is unlikely, however if there was an increase in rates a 0.25% increase would result in a potential increase of £0.5m in interest costs by March 2022, assuming an even profile of borrowing to fund capital expenditure in 2021-22 and factoring in the Q1 BoE rate decision has already passed with no increase in rates. The Council has set aside £2.1m in reserves to mitigate variable interest rate exposure which more than covers this interest exposure scenario.

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

Table 8: Maturity Structure of Borrowing

	31/03/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	40%	60%	0%	✓
12 months and within 24 months	1%	50%	0%	✓
24 months and within 5 years	0%	50%	0%	✓
5 years and within 10 years	0%	75%	0%	✓
10 years and above	59%	100%	25%	✓

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of interest rate changes.

Table 9: Sums invested for more than one year

	2020/21 Maximum £m	31/03/21 Actual £m	2020/21 Limit £m	Complied
Sums invested for longer than one year	0	0	40	✓

Other Non-Treasury Holdings and Activity

22. Although not classed as treasury management activities, the CIPFA Code requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.
23. The Authority holds the following non-treasury investments:
 - £122m of directly owned investment property
 - £240m of loans to Halsey Garton Ltd
 - £96m of equity investments in Halsey Garton Ltd
 - £2m of loans to other subsidiaries
24. Such loans and investments have been approved in accordance with the Council's agreed processes. A register of such investments is maintained and performance information is reported to the Strategic Investment Board or the Shareholder and Investment Panel, in accordance with their Terms of Reference.
25. These non-treasury investments generated £6.6m of investment income for the Authority after taking account of direct costs and interest payable.

Implications:

Financial

26. The financial implications of this report are discussed in paragraph 16-17 and were included in the outturn report to Cabinet on 1st June 2021.

Equalities and Diversity Implications

27. There are no direct equities implications of this report

Risk Management Implications

28. The risk management arrangements in relation to treasury management are discussed in paragraph 20.

Next steps:

- i. The treasury team will continue to monitor the UK and overseas banking sector and will continue to update this Committee as appropriate
- ii. In line with the requirements the CIPFA Code, this Committee will receive a half yearly report on the Council's treasury management activities in December 2022 and a full year report for 2021/22 in July 2022.

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Sources/background papers:

Capital Budget, Prudential Indicators & Treasury Management Strategy 2020/21
CIPFA Code of Practice for Treasury Management
CIPFA Prudential Code

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Annex 1: Economic Background provided from Arlingclose

External Context

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

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

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

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

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

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

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

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

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

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

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

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

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

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

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

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

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

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

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