



**Epping Forest  
District Council**

**AUDIT & GOVERNANCE COMMITTEE**  
**Wednesday, 9th December, 2020**

You are invited to attend the next meeting of **Audit & Governance Committee**, which will be held at:

**Virtual Meeting on Zoom**  
on **Wednesday, 9th December, 2020**  
at **7.00 pm** .

**Georgina Blakemore**  
Chief Executive

**Democratic Services  
Officer**

Laura Kirman  
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**Members:**

Councillors I Hadley (Chairman), S Heap, R Jennings, P Keska and B Vaz

Independent

**WEBCASTING/FILMING NOTICE**

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**If you have any queries regarding this, please contact the Corporate Communications Manager on 01992 564039.**

**1. WEBCASTING INTRODUCTION**

This virtual meeting is to be webcast. Members are reminded of the need to unmute before speaking. The Chairman will read the following announcement:

“I would like to remind everyone present that this virtual meeting will be broadcast live to the internet (or filmed) and will be capable of repeated viewing (or another use by such third parties).

Please could I also remind Members of the Public who have registered to speak that they will be admitted to the meeting at the appropriate time.

Please also be aware that if technical difficulties interrupt the meeting that cannot be overcome, I may need to adjourn the meeting.”

**2. APOLOGIES FOR ABSENCE**

To be announced at the meeting.

**3. DECLARATIONS OF INTEREST**

To declare interests in any item on the agenda for the meeting of the Committee.

**4. MINUTES (Pages 5 - 14)**

To confirm the minutes of the meeting of the Committee held on 28 September 2020.

**5. MATTERS ARISING**

To consider any matters arising from the minutes of the previous meeting of the Committee.

**6. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME (Pages 15 - 16)**

(Chief Internal Auditor) To consider the attached work programme for the Committee for 2020/21.

**7. INTERNAL AUDIT MONITORING REPORT - NOVEMBER 2020 (Pages 17 - 32)**

(Chief Internal Auditor) To consider the attached report summarising the work of Internal Audit and Corporate Fraud for the period September to November 2020.

**8. AUDIT COMMITTEE EFFECTIVENESS AND REVIEW OF TERMS OF REFERENCE (Pages 33 - 56)**

(Chief Internal Auditor) To consider the review of the terms of reference and the effectiveness of the Audit and Governance Committee.

**9. RISK MANAGEMENT (Pages 57 - 82)**

(Section 151 Officer) To consider the attached report and review the corporate risk register for any new or emerging risks.

**10. TREASURY MANAGEMENT MID-YEAR REPORT 2020/21 (Pages 83 - 100)**

(Section 151 Officer) To consider the Council's Treasury Management Mid-Year Report 2020/21.

**11. ANNUAL AUDIT AND STATEMENT OF ACCOUNTS 2019/20**

(Section 151 Officer). To provide details of the progress made in the preparation of the Statutory Statement of Accounts 2019/20 and the status of the Annual Audit Letter (report to follow).

**12. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972 requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

**13. EXCLUSION OF PUBLIC AND PRESS**

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

<i>Agenda Item No</i>	<i>Subject</i>	<i>Exempt Information Paragraph Number</i>
<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Background Papers:

Article 17 of the Constitution (Access to Information) define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection one copy of each of the documents on the list of background papers for four years after the date of the

meeting. Inspection of background papers can be arranged by contacting either the Responsible Officer or the Democratic Services Officer for the particular item.

## EPHING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

**Committee:** Audit & Governance Committee      **Date:** 28 September 2020

**Place:** Virtual Meeting on Zoom      **Time:** 7.00 - 8.40 pm

**Members Present:** I Hadley, S Heap, R Jennings and B Vaz

**Other Councillors:** A Patel and J Philip

**Apologies:** P Keska

**Officers Present:** C Hartgrove (Interim Chief Finance Officer), A Hendry (Democratic Services Officer), S Linsley (Senior Auditor), S Mitchell (PR Website Editor), A Small (Strategic Director Corporate and 151 Officer) and G Woodhall (Team Manager - Democratic & Electoral Services)

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### 26. WEBCASTING INTRODUCTION

The Chairman made a short address to remind everyone present that this virtual meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

### 27. DECLARATIONS OF INTEREST

There were no declarations of interest pursuant to the Council's Member Code of Conduct.

### 28. MINUTES

**Resolved:**

- (1) That the minutes of the meeting held on 27 July 2020 be taken as read and signed by the Chairman as a correct record.

### 29. MATTERS ARISING

There were no matters arising from the minutes of the previous meeting which warranted further discussion.

### 30. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME

The Senior Auditor, S Linsley, presented the Committee's Work Programme for 2020/21.

S Linsley highlighted that there had been two changes to the Work Programme since the last meeting: the Treasury Management Mid-Year report for 2020/21 and the Statutory Statement of Accounts for 2019/20 would now be considered at the next meeting of the Committee. A Small informed the Committee that the Government had

relaxed the deadline for the Statutory Statement of Accounts to be completed. C Hartgrove explained that due to Covid-19, the Mid-Year Treasury Management report was not quite ready yet but he was working with the Council's consultants - Arlingclose – to finalise the report for the next meeting.

The Committee noted its revised Work Programme.

### **31. THE REDMOND REVIEW**

The Council's Interim Chief Financial Officer, C Hartgrove, presented a report on the Redmond Review, an independent review into the oversight of local audit and the transparency of local authority financial reporting which had been published on 8 September 2020.

C Hartgrove reported that the Review had examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting an authority's annual accounts enabled the public to understand this financial information and receive the appropriate assurance that the finances of an authority were sound. Serious concerns had been expressed by consultees during the Review about the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. Specifically, whether audit reports delivered full assurance on the financial sustainability and value for money of local authorities, and evidence submitted to the Review noted concerns about the balance of price and quality in audit contracts.

C Hartgrove drew the attention of the Committee to the fact that the fragmentation of the existing local government accounting and audit framework following the demise of the Audit Commission in 2015 had been pinpointed as a key area for reform. The creation of a new regulatory body – The Office of Local Audit and Regulation (OLAR) – was recommended, which would have specific responsibility for procurement, contract management, regulation, and oversight of local audit. The Review was also critical of the current size of audit fees (which had fallen dramatically in recent years) and recommended extending the deadline for the publication of audited accounts to 30 September from the current 30 July deadline.

C Hartgrove stated that Governance arrangements had also come under the spotlight, and a review of the composition of Audit Committees was recommended, and the switch to a narrative report on the value-for-money (VFM) opinion was supported. The Review also urged statutory status for the principles in the Chartered Institute of Public Finance and Accountancy's Financial Management Code as a means of better judging financial resilience. In terms of financial reporting, the Review highlighted the "impenetrable" nature of local government accounts and had recommended a simplified statement of service information and costs be prepared alongside the statutory accounts. The implementation of the recommendations would, in part, require regulatory or legislative change and the report of the Review was now being considered by the Government. Any implementation of the recommendations of the Review would be effective for the 2021/ 22 municipal year.

Cllr R Jennings supported the report and whole heartedly supported the principle that the required knowledge should always be present in the membership of an Audit Committee. In addition, the Councillor supported the recommendation that financial reports should be understandable by the general public.

C Hartgrove stated that Public Sector Audit Appointments Limited (PSAA) had removed many of the requirements for local authority audits, which had reduced the fees levied by the Audit companies. As highlighted in the Review, there would be

pressure to increase audit fees in the future. The External Auditor, C Wisdom, added that the Review had concluded audit fees were 25% lower than they should be, and that extending the time permitted for audits to be carried out would create more flexibility in audit delivery as well as allowing the same Audit Team to audit more Councils. The Chairman, Cllr I Hadley, emphasised that there was no mention of transition costs within the Review.

**Resolved:**

- (1) That the findings, conclusions and recommendations of the independent review into the oversight of local audit and the transparency of local authority financial reporting (The Redmond Review) be noted.

## **32. RISK MANAGEMENT**

The Section 151 Officer, A Small, presented a report on the review of the Corporate Risk Register.

A Small reported that the Corporate Risk Register had been reviewed by the Officer Risk Management Group at its meeting on 9 September 2020, and the following revisions had been proposed:

- The Covid-19 risk had been removed as its affects had been adequately captured in many of the other corporate risks, especially the Financial Resilience and Economic Development risks.
- Risk 3 (Financial Resilience) had been upgraded given the size of the cost of Covid-19.
- Risk 6 (Business Continuity) had been downgraded as the Council continued to demonstrate the way it had coped with Covid-19.
- Risk 12 (Travel Plan) had been upgraded as it linked with Risk 11 (Accommodation Project) and the need to consider parking arrangements in light of commercial opportunities to rent out space at the Civic Offices.

A Small stated that the Council's Risk Management Strategy had not been revised since September 2017. The Risk Management Strategy had been reviewed and updated to reflect the changes in reporting arrangements. In addition, the 'Future Actions' section reflected the need for the Council to define its risk appetite and engage better with staff, and the Risk Assessment matrix (Appendix 1 of the Strategy) had been updated to ensure the Council could better identify its medium (amber) and high (red) risks. The Committee was asked to consider the amended Risk Management Strategy and recommend it to the Cabinet for adoption.

Cllr S Heap opined that risk 10, Climate Emergency, should be scored as A1 not B2, and that there appeared to be no strategy for developing manufacturing or the arts within the District as part of risk 4, Economic Development. In addition, Cllr S Heap asked why the Council was so concerned about reputational damage for a number of the risks and whether risk 1, Local Plan, was such a high risk if the District Council got merged as part of Local Government Reform? The Councillor also enquired if there would be any answers forthcoming for the detailed questions that he had previously emailed in before the meeting.

A Small stated that the Council's new Sustainability Officer had now started with the Council and the authority was now in a position to develop the necessary plans and actions. There was a high degree of uncertainty with Local Government Reform but it was still important to ensure the Council was prepared for whatever happened in the

future. The perceived risks to the Council's budgets were much sooner than 2024, and the Council needed to plan accordingly.

The Portfolio Holder for Finance & Economic Development, Cllr J Philip, acknowledged that reputational damage was irrelevant in certain cases as the Council would be blamed regardless of what had actually happened. However, it was significant in a number of instances to allow the Council to represent its residents properly. Cllr J Philip felt that it was hazardous to refocus the Council's Risk Strategy on what might or might not happen in the future in relation to Local Government Reform. In respect of the Local Plan, each District Council was legally obliged to produce one, and it was unlikely that Local Plans would be merged as a result of Local Government Reform.

A Small reminded the Committee that the Council's risks were not listed in risk order on page 22 of the agenda, this was simply a statement of the current risks facing the Council. The table on page 33 of the agenda illustrated better the risks in order of their likelihood and impact, with risks 4 – Economic Development – and 9 – Delays in Issuing Planning Permissions – rated as the highest. If Cllr S Heap was to forward his emailed questions to A Small then responses would be circulated to the Committee.

**Resolved:**

- (1) That detailed responses to the questions from Cllr S Heap be circulated to the Committee by A Small;
- (2) That the current Corporate Risk Register, as revised by the Officer Risk Management Group, be noted; and
- (3) That the revised Risk Management Strategy be recommended to the Cabinet for adoption.

**33. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER 2020**

The Senior Auditor, S Linsley, presented the Internal Audit Monitoring Report for the period July to September 2020.

S Linsley stated that no reports had been issued since the Committee's last meeting in July. The current Recommendation Tracker showed that eight audit report recommendations had passed their due date (down from 16 previously), of which two were high priority. The two overdue, high priority audit recommendations were concerned with the development of a Corporate Data Retention and Disposals Policy, and Health & Safety Risk Assessments at the Council's Satellite Offices; however, good progress was being made to resolve both recommendations. The progress of all audit report recommendations continued to be monitored by the Corporate Governance Group. Progress against the Audit Plan for 2020/21 had initially been hindered due to Covid-19 but had now resumed.

S Linsley highlighted the other activities being undertaken by the Internal Audit Team, which included: providing advice and assistance with the Local Authority Discretionary Grants Scheme; assisting with development of Decision Making Accountability; and coordinating preparations for the National Fraud Initiative exercise for 2020/21. The Corporate Fraud Team had been instrumental in the withdrawal of six Right-to-Buy applications and were currently assisting Internal Audit and the Revenues Team investigating three potentially fraudulent applications for Covid-19 Business Grants.



Cllr S Heap highlighted possible issues with long-term sickness during the pandemic for the recommendations in relation to the implementation of a Council-wide approach for Business Rates, and felt that some of the outstanding Audit Report recommendations should have been implemented before the first lockdown came into being. S Linsley pointed out that the recommendations arising from this Audit Report were low priority, and the Service had also to deal with the implementation of the Small Business Grants scheme during the lockdown. However, the recommendations have now started to be progressed as the Service had pulled over resources from the Council Tax Team. In addition, S Linsley assured the Committee that audits were completed thoroughly, and that progress with outstanding recommendations from previous Audit Reports were monitored to ensure they were properly managed.

**Resolved:**

- (1) That the summary of the work undertaken by the Internal Audit Team and the Corporate Fraud Team during the period July to September 2020 be noted.

**34. STATEMENT OF ACCOUNTS 2019/20 - UPDATE**

The Council's interim Chief Financial Officer, C Hartgrove, updated the Committee on the Council's progress in discharging its statutory duty to prepare an Annual Statement of Accounts for 2019/20.

C Hartgrove reported that *The Accounts and Audit (Coronavirus) Amendments Regulations 2020* had extended the statutory deadlines for 2019/20 for all local authorities:

- Unaudited Accounts – these were required to be published on the Council's website by 31 August 2020; the Council's Accounts were published on Friday 21 August 2020; and
- Audited Accounts – these were required to be published on the Council's website by 30 November 2020.

C Hartgrove informed the Committee that the audit of the Statement of Accounts for 2019/20 was currently in progress and it was anticipated that the external auditors would be able to issue their audit opinion by the statutory deadline of 30 November 2020.

**Resolved:**

- (1) That the progress with the preparation of the Council's Statement of Accounts for 2019/20 be noted; and
- (2) That the receipt and scrutiny of the Council's audited Statement of Accounts for 2019/20 at the Committee's meeting scheduled for 23 November 2020 be agreed.

**35. ANY OTHER BUSINESS**

**Resolved:**

- (1) That, in accordance with Section 100B(4)(b) of the Local Government

Act 1972, the following items of urgent business be considered following the publication of the agenda:

- (a) Treasury Management Outturn Report 2019/20; and
- (b) Audit Planning Report – Year Ended 31 March 2020.

### **36. TREASURY MANAGEMENT OUTTURN REPORT 2019/20**

The Council's interim Chief Financial Officer, C Hartgrove, presented the Treasury Management Outturn Report for 2019/20.

C Hartgrove reminded the Committee that the Treasury Management Outturn Report detailed the Council's actual Treasury Management activity for the year, and included the year-end position which would be included in the Council's Statement of Accounts. During the year, external borrowing by the Council had risen by £39million to £224.5million and the value of the Council's investments had risen by £5.5million to £22.1million. The Council's Commercial Property Portfolio was also included and this had delivered a net income of £6.2million during the year, although there were also valuation losses due to unfavourable market conditions.

C Hartgrove reported that full compliance had been achieved with the majority of the Council's adopted Treasury Management and Prudential Indicators; however, there had been some technical breaches with Investment Limits. The £3million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. The peak cash holding was £26million in mid-December 2019 for a period of 6 days. The increasing scale of commercial activity generally, including the Qualis initiative, meant that the current Investment Limits were proving operationally very difficult. A review of the Limits had therefore been undertaken and a solution (that balanced risk with operational need) had been developed. Based on discussions with Arlingclose, the Council's Treasury Management consultants, a revised Investment Limit for a single institution had therefore been suggested at £4million.

In addition, C Hartgrove stated that it was the view of Arlingclose that the Council's current Investment Limit of £10million in total for Money Market Funds (MMFs) was now excessively prudent, with a £10million limit more usually associated with a single MMF. These were not considered risky investments (and usually carried very high credit ratings), provided investments were spread across a range of MMFs. It was therefore proposed that the MMF Investment Limit be amended to £10 million for a single MMF. Consequently, the Committee was requested to recommend these revised Investment Limits to the Council for approval.

In relation to the increased borrowing undertaken by the Council of £39million during the year, the Section 151 Officer A Small reminded the Committee that £30million of this borrowing had been undertaken on behalf of Qualis. It was likely that the Council would undertake further borrowing on behalf of Qualis and this would be reflected in the Treasury Management Strategy in the future. The Portfolio Holder for Finance & Economic Development, Cllr J Philip, added that Qualis could test the market for future lending, and the Council would not necessarily be the only lender to Qualis in the future. C Hartgrove stated that the loan with the Public Works Loan Board of £185.5million was still to be repaid in 2022; the Council was due soon to make a repayment of £31.8million, for which it currently had approximately £12million currently set aside.

Cllr R Jennings was concerned that the Council now had a substantial debt and was there a mechanism to stop the Council borrowing further monies? A Small stated that the risks the Council could take when borrowing monies was part of the Treasury Management Strategy; there was a requirement to demonstrate that the Council's liabilities could be managed and the debts repaid, so potentially there was no upper limit for the Council's borrowings.

The External Auditor stated that their focus was on the robustness of the governance arrangements, and that decisions to borrow further monies by the Council were based on sound financial processes, including assessing whether the Council was benefitting from its borrowing decisions. The Council would always be encouraged to follow its governance processes to ensure that any borrowing decisions were sound, and that such decisions were monitored to ensure that the original business case was still relevant.

In relation to the proposed increase in Investment Limits, A Small explained that each MMF was a blend of different funds with different institutions, which presented a more diversified risk. Thus, such Funds were more likely to achieve an 'AAA' credit rating than a single institution due to this spreading of the risk. If the Council was to have more than £10million in cash for any length of time, then it would probably be more prudent to reduce debts than hold these monies in such funds. However, they would normally only be used for short-term holdings and it was unlikely that the Council would invest in more than 3 such funds at any one time. In addition, the Council would only ever use such funds that were credit rated as 'AAA' and recommended by Arlingclose.

Cllr S Heap was concerned that MMFs were not as safe as being stated by Officers. The Councillor felt that there needed to be some control over the number of such funds that were invested in, and would prefer a limit of £5million per fund. Cllr I Hadley commented that this rise in the investment limit for MMFs appeared to be much larger than the proposed rise in the counterparty limit from £3million to £4million, especially as it was a rise from £10million in total invested in MMFs to £10million per MMF. Cllr R Jennings shared these concerns and would also prefer a limit of £5million per MMF. Cllr J Philip proposed that the Section 151 Officer would report to the next meeting of the Committee instances of when the Council used more than three MMFs at any one point in time. However, Cllr R Jennings highlighted that the Committee only met every two or three months and suggested that an emergency meeting of the Committee could be called, or perhaps the Chairman plus one or two other Members of the Committee, whenever Officers wished to invest in more than three MMFs.

C Hartgrove reiterated that monies did not generally remain in MMFs for very long, and were often only invested in for very short periods of time, whilst Cllr J Philip reminded the Committee that the Council would be acting on the advice of their Treasury Management Consultants. A Small stated that the alternative would be to invest these funds with individual institutions in accordance with the Treasury Management Strategy, but this would limit the Council's flexibility to make short-term investment decisions and represent a higher investment risk. In addition, the more individuals that had to be called together before the Council could make an investment decision would also restrict the Council's flexibility.

However, the Committee was still concerned about the risk this could pose to the Council if there was not a maximum on the number of MMFs that could be invested in at any one time. Therefore, the Committee agreed to recommend to limit the number of such Funds that could be invested in to three at any one time, and if Officers wished to invest Council monies in more than three such Funds at the same

time then they would have to call an emergency virtual meeting with at least three members of the Audit & Governance Committee – preferably including the Chairman – to discuss the situation.

**Resolved:**

- (1) That the Treasury Management Outturn Report for 2019/20 be noted;
- (2) That the following amended Treasury Management Investment Limits be recommended to the Council for approval:
  - (a) Single Institution (excluding the UK Government) to be increased to £4million (previous limit was £3million); and
  - (b) Money Market Funds to be increased to £10million per fund, with a maximum of 3 Funds to be invested in at any one time unless Officers have called an emergency virtual meeting with three members of the Audit & Governance Committee – preferably including the Chairman - to discuss the situation (previous limit was £10million in total for all such Funds invested in).

**37. AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2020**

The External Auditor, C Wisdom, presented the Audit Planning Report for the year ended 31 March 2020.

C Wisdom highlighted the key areas of focus for the Audit, which included the three significant risks that had been identified: property valuations for fixed assets and investments; expenditure as part of the Council's Capital Programme; and management override of accounting controls. In addition, the Council's liability under the Local Government Pension Scheme would also be an area of audit focus. It was reported that this year's audit was progressing more efficiently than last year and was expected to be completed on time.

In response to questions from the Committee, C Wisdom explained that many valuations changed due to the future outlook for a particular market, e.g. if rents were not expected to be as good as a year ago then property valuations would decrease. There was usually some degree of judgement with valuations. In respect of the Pension Scheme deficit, the Pension Scheme would have invested in a variety of assets so no single particular asset – such as land values – would be responsible for the deficit. A narrative regarding the actuarial valuations for the Pension Scheme would be added in future.

C Wisdom assured the Committee that there was no intent to mislead by quoting a figure of '£2,000k' instead of '£2m', and that '£2m' would be used in future. The basis of valuations used for the assets transferred to Qualis was not currently known, but they would be examined in the future.

**Resolved:**

- (1) That the Audit Planning Report for the year ended 31 March 2020 be noted.

**38. EXCLUSION OF PUBLIC AND PRESS**

The Committee noted that there was no business which necessitated the exclusion of the public and press from the meeting.

**CHAIRMAN**

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## **Audit & Governance Committee Work Programme 2020/21**

### **25 June 2020**

- Annual Report of the Chief Internal Auditor 2019/20.
- Corporate Fraud Team Annual Summary 2019/20
- Audit and Governance Committee Annual Report 2019/20.
- Internal Audit Strategy and Plan 2020/21
- Corporate Fraud Team Strategy 2020/21
- Internal Audit Progress Report.
- Risk Management Report

### **27 July 2020**

- Statutory Statement of Accounts 2019/20
  - Annual Governance Statement 2019/20
  - Internal Audit Progress Report
- ❖ Audit of Accounts Annual Governance Statement 2019/20

### **28 September 2020**

- Treasury Management Annual Outturn Report.
- Internal Audit Progress Report.
- Risk Management Report

### **23 November 2020**

- Treasury Management Mid-Year Report.
  - Internal Audit Progress Report.
  - Risk Management Report
  - Review of the Audit and Governance Committee Effectiveness and Terms of Reference.
  - Review of the Anti-Fraud and Corruption Strategy
- ❖ Annual Audit Letter 2019/20

### **25 January 2021**

- Treasury Management Investment & Strategy Statements.
- Internal Audit Progress Report.
- Risk Management Report
- Review of Code of Corporate Governance.
- Review of the Internal Audit Charter.

### **22 March 2021**

- Risk Management Report
  - Internal Audit Progress Report
  - Internal Audit Strategy and Audit Plan 2021/22.
  - Corporate Fraud Team Strategy 2021/22.
- ❖ Planning Letter 2020/21.
- ❖ Audit Plan 2020/21

- ❖ Grant Claims Audit Report 2019/20

**Key**

- EFDC Officer Report.
- ❖ External Auditor Report.

*N.B...In addition, the Committee's annual private meetings with the External (7pm) and Internal (7.15pm) Auditors are scheduled to take place prior to the 23 March 2020 meeting in the Conference Room.*



## ***Report to the Audit and Governance Committee***



**Epping Forest  
District Council**

***Report Reference: AGC-015-2020/21***

***Date of meeting: 9 December 2020***

**Portfolio: Leader of the Council**

**Subject: Internal Audit Monitoring Report November 2020**

**Responsible Officer: Sarah Marsh (01992 564446).**

**Democratic Services: Laura Kirman (01992 564273)**

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### **Recommendations/Decisions Required:**

- (1) The Committee notes the summary of the work of Internal Audit and the Corporate Fraud Team for the period September to November 2020**

### **Executive Summary:**

This report updates Members on the work completed by Internal Audit and the Corporate Fraud Team since the September 2020 Audit and Governance Committee and provides the current position in relation to overdue recommendations.

### **Reasons for Proposed Decision:**

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

### **Other Options for Action:**

No other options.

### **Report:**

#### **2020/21 Internal Audit Plan**

- Current status of the 2020/21 Audit Plan, which had been stalled as a result of Covid-19 but is now progressing, is shown in appendix 1. Specialist services have been brought in to undertake a set number of audits to assist with completion of the Plan. One report has been finalised since the last Committee meeting in September.

#### ***Active Directory Management – moderate assurance***

Examination of Active Directory (AD) security settings confirmed that password complexity

and minimum length had all been invoked together with robust restrictions on failed login attempts. However, testing identified that minimum password age and password history settings within the AD domain did not meet recommended best practice standards, increasing the likelihood of brute-force attacks allowing unauthorised access to data. Documented and automated procedures are in place for the removal of Council leavers' access rights and these are disabled promptly. A review of AD user access rights identified a number of dormant accounts that need to be disabled to prevent unauthorised access.

Audit policies within AD had been enabled to capture key events and these are encapsulated in the AD security log; although the size of the security log should be increased to meet Microsoft best practice and prevent audit logs being overwritten.

The audit identified some Microsoft Windows Server 2008 servers for which vendor support ceased in January 2020 and therefore no further security patches are provided by the software vendor to address any newly identified vulnerabilities. These had already been identified by IT who are considering whether these should be replaced or decommissioned to prevent denial of service attacks, and the priority of these.

**Recommendation Tracker**

2. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports regardless of whether they are overdue or not.
3. The current tracker is shown at appendix 2 and contains three recommendations which have passed their due dates as detailed in table 1. The progress of all recommendations is actively monitored by Internal Audit with the assistance of the Corporate Governance Group.

Table 1. Summary of tracker as at November 2020.

Recommendation type	Number (November 2020)	Number (September 2020)	Number (July 2020)	Number (June 2020)	Number (March 2020)
High Priority not passed its due date	0	0	2	2	1
High Priority passed its due date	1	2	1	1	0
Medium Priority passed its due date	2	1	6	6	7
Low Priority passed its due date	0	5	7	7	4
<b>Total</b>	<b>3</b>	<b>8</b>	<b>16</b>	<b>16</b>	<b>12</b>

**Other Internal Audit activities**

4. Internal Audit has continued to provide advice and guidance in several business areas:  
**Covid-19 central government grants for businesses and individuals:** Internal Audit and the Corporate Fraud Team continue in providing advice and assistance on the Local Authority Discretionary Grants Fund (LADGF) scheme, including pre- and post-award checks has recently come to end, with the Council mopping up the last few claims. Attention has now moved over to the new Test and Trace Support Payment scheme and other prosed

government initiatives

**Finance related work:** Internal Audit resource was being used to assist Finance with the reconciliation of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund payments to ensure payments are properly accounted for and to assist with returns to central government. Resource is now diverted to update the Revenue Account 2020/21 form submitted to central government and review the processes around the capitalisation of salaries costs within Housing.

**Decision Making Accountability (DMA):** Internal Audit is continuing to develop a schedule of corporate responsibilities for each layer of the management spine, reflecting the DMA principles used to design the Council's structure. This will ensure there is clarity and consistency of decision making at each management level and responsibility is attached to the role and not the individual. Discussions are ongoing with Service Managers to align processes with the DMA which will maintain operational effectiveness whilst ensuring accountability.

**Corporate purchase cards:** Internal Audit is facilitating discussions on the Council's approach to the use of purchase cards following the decision to use these routinely for low level spend.

**National Fraud Initiative (NFI) 2020/21:** Internal Audit is coordinating preparations for the 2020/21 NFI exercise. A revised protocol has been agreed with submission of the data taking place in October 2020. Matches are due out in January 2021.

#### **Corporate Fraud Team Update**

5. The Corporate Fraud Team (CFT) continue to proactively vet all Right to Buy applications submitted and a further three applications have been withdrawn following CFT intervention.
6. Working alongside colleagues in Housing, the CFT has been undertaking investigations into each succession application and have, in several instances, been able to establish that the application was either false or the applicant did not qualify to succeed to the tenancy. This has resulted in Housing being able to recover several properties with a view to placing them back into stock. The investigation of tenancy successions is seen as a vital part of tackling social housing fraud as it can mean that an applicant can effectively circumvent the entire application /waiting list process.
7. As mentioned earlier CFT continue to assist the Revenues Team in issues surrounding Covid-19 Business Grants.

#### **Legal and Governance Implications:**

None

#### **Safer, Cleaner and Greener Implications:**

None

#### **Consultation Undertaken:**

Corporate Governance Group

#### **Background Papers:**

2020/21 Audit and Resource Plan

**Risk Management:**

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 3 to the report.

**Appendix 1 - Audit Plan Monitoring 2020/21**  
**Progress as at November 2020**

Page 21

	Service	Plan Days	Status	Fieldwork started	Report issued to Management	Finalised	Opinion: Level of Assurance	High Priority Recs	Medium Priority Recs	Low Priority Recs
Harlow and Gilston Garden Town - c/f from 2019/20	Chief Executive	15	Final report	■	■	■	Substantial	0	3	1
Fixed Assets - c/f from 2019/20	Customer Services	15	In progress	■	■					
Customer Services - c/f from 2019/20	Business Services	12	In progress	■						
IT - active directory management	Business Services	10	Final report	■	■	■	Moderate	0	11	0
IT - storage area network	Business Services	10	In progress	■						
IT Disaster recovery	Business Services	10	In progress	■						
Governance - Qualis	Chief Executive	12	Scoping							
KFC: Accounts Payable	Business Services	12	Scoping							
KFC: Payroll	Business Services	12	Scoping							
H&S compliance - council buildings and depot compliance	Housing and Property	20	Scoping							
Housing H&S – gas safety	Housing and Property	15								
KFC: Treasury Management	Business Services	12								
Business continuity: assist Council wide lessons learnt review	Business Services	10								
Contract management including exit strategies	Contracts and Technical	20								
Qualis Commercial	Chief Executive	15								
							<b>TOTAL</b>	<b>0</b>	<b>14</b>	<b>1</b>

Key

- c/f = carried forward
- H&S = Health and Safety
- KFC = Key Financial Controls
- vfm = Value for Money

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EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 06 November 2020

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Service Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<p>Health and Safety – Satellite Offices 2019/20 Report No. 06.19/20 (February 2020)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 23</p>	2	<p>Managers are formally reminded of the need to bring risk assessments up to date and for these to be reviewed and updated at least annually thereafter, or earlier if circumstances change.</p> <p>Centrally an officer is designated to carry out quarterly check that satellite office/depot risk assessments are up to date.</p> <p>A Lone Working Risk Assessment is undertaken at Norway House</p> <p>A fire risk assessment be undertaken at the Oakwood Hill Depot to assess whether there is an increased risk whilst the current building works are taking place.</p>	High	<p>All team managers have been instructed with immediate effect to record all training and training needs, risk assessments and upload these onto a matrix based on that of Oakwood Hill. They will also be tasked with discussing H&amp;S at each team meeting and all records will be required to be sent to their Level 2 Service Manager ahead of the quarterly Corporate Safety Team to be checked for compliance with HSAWA</p> <p>Fire Risk assessment in the hands of Facilities Management.</p>	Contingency Planning and Corporate Safety Officer.	30/03/20	31/12/20	<p><b>Jun 20:</b> The Council's immediate response to Covid19 has caused a significant shift in working arrangements which has altered the risk in relation to this recommendation. The current risks in satellite offices has reduced as work from these locations has been either suspended or reduced. The focus of H&amp;S officers has been in ensuring that staff are working safely from home and all staff are being asked to complete a home safety assessment. An additional Health and Safety Officer has recently joined Epping Forest District Council and a priority task will be addressing these outstanding recommendations, once work on ensuring staff are working safely at home has been completed.</p> <p><b>Jul 20:</b> This is being prioritised by the Strategic Safety Group (SSG).</p> <p><b>Sep 20:</b> A risk assessment template is ready to be signed off at the next SSG meeting.</p> <p>An online electronic accident reporting form which links directly with HR records has been produced and is being trialled by some members of staff. This will have a reminder system so the H&amp;S Officer can check for RIDDOR and enables uploading of risk assessments and safe systems of work if the</p>	Overdue

EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)

Last updated: 06 November 2020

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Service Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<p style="text-align: center;">Page 24</p>								<p>incident calls for investigation. Currently working a way to produce reports for the SSG.</p> <p><b>Nov 20:</b> Updated Risk Assessment Guidance and some initial templates have been approved by the SSG to be launched shortly. Risk Assessment training to be 'essential' for all levels of management. Service Managers have been required to complete a Risk Assessment Index for their Service and upload this and current.</p> <p>The Oakwood Hill Depot now has a shared occupancy with both EFDC and Qualis staff and activities on site. EFDC remains the landlord of the site. In order to establish and agree H&amp;S duties and arrangements as landlord, occupier and tenant a liaison meeting has been arranged to be attended by Qualis H&amp;S Manager and relevant EFDC staff. Lines of responsibility and communication will be documented with an ongoing meeting schedule to facilitate effective shared occupancy</p>	
	<p><b>Health and Safety – Satellite Offices 2019/20 Report No. 06.19/20</b> (February 2020)</p>	6	At least quarterly, the Contingency Planning and Corporate Safety Officer to receive the training matrices referred to above, to	Med	All points above are relevant to this and will ensure all training needs are identified in a timely manner.	Contingency Planning and Corporate Safety Officer.	30/03/20	31/12/20	<p><b>Jun/Jul 20:</b> Linked to the action above. A corporate health &amp; safety officer post has been created and they will implement the issues arising from this audit. The person commenced</p>



**EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)**

Last updated: 06 November 2020

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Service Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
Page 25		ensure that the appropriate H&S training is being identified and delivered in a timely manner.						<p>on 2 June 2020, and a complete review of the audit will be conducted as priority.</p> <p><b>Sep 20:</b> Essential H&amp;S training for all staff has been fully assessed by the Health &amp; Safety Officer and options to obtain more robust online and interactive training modules at varying levels, including maintaining training records and for all H&amp;S subjects prepared. This has been discussed with the Council's Learning &amp; Development Manager to agree a budget for this. Regular reporting to the H&amp;S Officer will be introduced for monitoring purposes.</p> <p><b>Nov 20:</b> Consultation and agreement from Learning &amp; Development Manager to proceed with purchase of suite of 13 online H&amp;S courses to be hosted on existing Vine HR system. Workplace H&amp;S course (level 2 equivalent) delivered to Construction Apprentices. Work in progress to deliver Risk Assessment training to all levels of management. Service managers are to providing details of H&amp;S training needs.</p>	

**EFDC Internal Audit Recommendation Tracker (Overdue and High Priority)**

Last updated: 06 November 2020

Audit Year (Date Report Issued)	Rec Ref	Original Recommendation	Priority	Managers Original Response	Responsible Officer / Service Director	Original Imp Date	Revised Imp Date	Status Update from Management	Status
<p><b>Asbestos Management 2019/20 Report No. 01.19/20</b> (April 2020)</p>	<p>2</p>	<p>(a) The asbestos policy is formally assigned to Property Maintenance, so they take ownership of the document and periodically review its content and include links to other housing and asbestos policies, procedures, and informative literature (e.g. key emergency contacts and out of hours procedures).</p> <p>(b) The updated asbestos policy to be shared with the appropriate Officers who potentially come in to contact with asbestos as part of the asbestos awareness training.</p>	<p>Med</p>	<p>(a) Team Manager – Operational Assets and Compliance to liaise with H&amp;S Officer and review the corporate asbestos policy; liaise with Housing Strategy team to establish links with other relevant existing policy documents; liaise with Housing Repairs and M&amp;E Team managers with “out of hours” standby responsibilities to establish emergency contact details and procedures; incorporate relevant sections of the corporate asbestos policy into a new Asbestos Management Plan</p> <p>(b) Communicate new Asbestos Management Plan to all Property Maintenance teams and wider Housing &amp; Property Services directorate.</p>	<p>Service Manager – Property Maintenance</p> <p>Team Manager – Operational Assets and Compliance</p>	<p>(a) 30/09/20  (b) 30/09/20</p>	<p>(a) complete  (b) 14 Dec 2020</p>	<p><b>Nov 20:</b> The Draft Asbestos Policy incorporating an Asbestos Management Plan was circulated to and discussed with the Council’s Health and Safety Officers and comments received 21 October 2020.</p> <p>The policy will be circulated following sign off at Cabinet 16 November 2020.</p>	<p>Overdue</p>

## Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
  - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
  - advancing equality of opportunity between people who share a protected characteristic and those who do not,
  - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
  - age
  - disability
  - gender
  - gender reassignment
  - marriage/civil partnership
  - pregnancy/maternity
  - race
  - religion/belief
  - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
  - Factsheet 1: Equality Profile of the Epping Forest District
  - Factsheet 2: Sources of information about equality protected characteristics
  - Factsheet 3: Glossary of equality related terms
  - Factsheet 4: Common misunderstandings about the Equality Duty
  - Factsheet 5: Frequently asked questions
  - Factsheet 6: Reporting equality analysis to a committee or other decision making body

<b>Section 1: Identifying details</b>
Your function, service area and team: <b>Internal Audit, Chief Executive</b>
If you are submitting this EqIA on behalf of another function, service area or team, specify the originating function, service area or team: <b>N/A</b>
Title of policy or decision: <b>Internal Audit Monitoring Report</b>
Officer completing the EqIA: Tel: <b>01992 564449</b> Email: <b>slinsley@eppingforestdc.gov.uk</b>
Date of completing the assessment: 09/11/20

<b>Section 2: Policy to be analysed</b>	
2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? <b>N/A - report is an update to Audit and Governance Committee on the work of Internal Audit Service</b>
2.2	Describe the main aims, objectives and purpose of the policy (or decision): <b>For Audit and Governance Committee to note the work of Internal Audit Service and Corporate Fraud Team</b> What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? <b>N/A – Report is for noting only</b>
2.3	Does or will the policy or decision affect: <ul style="list-style-type: none"> <li>• service users</li> <li>• employees</li> <li>• the wider community or groups of people, particularly where there are areas of known inequalities?</li> </ul> <b>N/A</b>  Will the policy or decision influence how organisations operate? <b>N/A – report is not decision-based, it is for noting only.</b>
2.4	Will the policy or decision involve substantial changes in resources? <b>N/A – report is for noting only</b>
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? <b>N/A</b>

### Section 3: Evidence/data about the user population and consultation<sup>1</sup>

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	What does the information tell you about those groups identified? <b>N/A – report is for noting only</b>
3.2	Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision? <b>N/A – as above</b>
3.3	If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary: <b>N/A – as above</b>

<b>Section 4: Impact of policy or decision</b>		
Use this section to assess any potential impact on equality groups based on what you now know.		
<b>Description of impact</b>	<b>Nature of impact</b> Positive, neutral, adverse (explain why)	<b>Extent of impact</b> Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

<b>Section 5: Conclusion</b>			
		<b>Tick Yes/No as appropriate</b>	
5.1	Does the EqlA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No ✓	
		Yes <input type="checkbox"/>	If ' <b>YES</b> ', use the action plan at <b>Section 6</b> to describe the adverse impacts and what mitigating actions you could put in place.

<b>Section 7: Sign off</b> <b>I confirm that this initial analysis has been completed appropriately.</b> <b>(A typed signature is sufficient.)</b>	
Signature of Head of Service: Sarah Marsh	Date: 09/11/20
Signature of person completing the EqlA: Sue Linsley	Date: 09/11/20

<b>Advice</b>
Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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## **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Date of meeting** 9 December 2020  
**Ref:** AGC-016-2020/21

**Portfolio:** Leader of the Council

**Subject:** Audit and Governance Committee - Review of Terms of Reference and Effectiveness

**Responsible Officer:** Sarah Marsh (01992 564446)

**Democratic Services Officer:** Laura Kirman (01192 564273)

### **Recommendations/Decisions Required:**

- (1) The Committee agrees no changes are required to its Terms of Reference and
- (2) The Committee considers the results of the review of effectiveness of the Audit Committee and notes progress against last year's action plan

### **Executive Summary:**

An effective audit committee brings many benefits to an organisation. To ensure the Council continues to provide an effective Audit and Governance Committee, a review of the Committee's effectiveness and its Terms of Reference has been undertaken.

No changes to the Committee's Terms of Reference as they adequately reflect the remit of the Committee and an action plan has been developed to address minor weaknesses identified from the effectiveness review.

### **Reasons for Proposed Decision:**

To ensure, as a key component of the Council's governance framework, the Audit and Governance Committee continues to be effective and to follow good practice within the sector.

### **Other Options for Action:**

None

## **Report:**

### **Background**

1. The purpose of this report is to review the terms of reference of the Audit and Governance Committee to ensure it satisfies the core functions of an audit committee as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA), in its 2018 guidance, *Audit Committees: Practical Guidance for Local Authorities and Police*. The report also seeks to ensure that the Committee remains effective, as it is a key component of the Council's governance framework.
2. The Audit and Governance Committee reviews its terms of reference and effectiveness on an annual basis. This was last undertaken in November 2019.
3. The CIPFA guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklists provided in the guidance have been used in the review of the effectiveness of the Audit and Governance Committee and are attached to this report.

### **Terms of Reference Review**

4. An effective audit committee brings many benefits to an organisation. To ensure that the Council continues to provide an effective Audit and Governance Committee, its terms of reference should be considered on an annual basis, which is in line with good practice. The Committee should ensure the terms of reference remain current and make recommendations for any significant changes to the Council.
5. The Committee last reviewed its terms of reference in November 2019 and amendments approved by Council in July 2020 via the Constitutional Working Group. Since the 2019 review the Audit and Governance Committee has strengthened its role with regards to risk management and its remit in this area is adequately reflected in its current Terms of Reference.
6. Internal Audit has carried out a comparison of the Committee's current terms of reference (Appendix A) with the 2018 CIPFA model terms of reference and has undertaken benchmarking with the terms of reference of the audit committees operated by Broxbourne Borough Council and Harlow District Council. On this basis the current terms of reference are still fit for purpose and no changes are required.

### **Membership Review**

7. A good audit committee is characterised by a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. It is important to achieve the right mix of apolitical expertise. CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that councils actively explore the appointment of an independent member to the Committee.
8. The terms of reference for the Committee provide for two independent (co-opted) members. The Council is in the process of recruiting to both positions which are currently vacant.

## Approach to the Effectiveness Review

9. The effective operation of the Audit and Governance Committee forms a key element of the Council's assurance framework. An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the Council's performance.
10. This review was performed by the Chief Internal Auditor and is based on guidance issued in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police (2018 edition). The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee.
11. The Committee's effectiveness reviews have been undertaken previously with the last review being in November 2019. The results of the 2019 self-assessment confirmed that the Council was able to demonstrate compliance with recommended best practice for an effective Audit Committee. Some minor areas for improvement were identified as listed in the Action Plan below:

Area	Description and Proposed Actions (November 2019)
Skills and knowledge analysis	Consider repeating the skills and knowledge analysis which was last undertaken in September 2017.
Committee engagement	<p>The Audit Committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. CIPFA gives the following examples on how this can be achieved:</p> <ul style="list-style-type: none"> <li>• The committee focus on a significant risk area from the risk register and invite the head of service to attend to discuss risks and explain how the risk is mitigated.</li> <li>• When reviewing an audit report with significant weaknesses or disputed recommendations then the responsible head of service should be present to answer questions directly.</li> <li>• If other action plans are monitored by committee then again involve responsible heads.</li> <li>• Invite other members on other committees such as scrutiny if the agenda covers areas of interest to them.</li> </ul> <p>It should be noted the Committee's Terms of Reference entitles the Committee to require any Member, Director, their representatives or any other officer to attend their meetings in order to discuss any matters under discussion and has exercised this right in the past.</p>

## Results of the 2020 Effectiveness Review

12. The results of the self-assessment (appendix B) show that the Council can demonstrate compliance with recommended best practice for an effective audit committee.
13. There are no new areas that the Committee requires improvement on. Committee members are currently completing a questionnaire to ascertain the level and range of skills and knowledge the Committee has collectively.

**Resource Implications:**

None

**Legal and Governance Implications:**

To comply with CIPFA guidelines and as part of the process for gathering evidence for the production of the Annual Governance Statement, the Council is required to review the effectiveness of its Audit Committee. This effectiveness review and review of its Terms of Reference ensures that the Council fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

The Accounts and Audit (England Regulations) 2015 requires that a relevant authority must ensure that it has a sound system of internal control which:

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

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where the audit committee undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

Corporate Governance Group

**Background Papers:**

Audit Committees – Practical Guidance for Local Authorities 2018

Audit and Governance Committee Terms of Reference

**Risk Management:**

The Audit and Governance Committee has a pivotal role in how the Council delivers good governance. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process and reviewing the effectiveness of these arrangements.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix C to the report.

## Appendix 1

### ARTICLE 11 - AUDIT AND GOVERNANCE COMMITTEE

#### Statement of Purpose

1. The role of the Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial statements and provides a forum for considering ethical issues and ensuring high standards of conduct.
2. The purpose of the Committee is to provide independent assurance to the members of the adequacy of the risk management framework and internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit arrangements, helping to ensure efficient and effective assurance arrangements are in place.
3. The specific functions of the Committee are:

#### **Governance, risk and control**

- a. to review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances;
- b. to review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control;
- c. to note the Council's overall approach to value for money in ensuring the authority is making best use of its resources.
- d. to consider the Council's framework of assurance and ensure it adequately addresses the risk and priorities of the authority;
- e. to monitor the effective development and operation of risk management in the Council;
- f. to monitor progress in addressing risk-related issues reported to the Committee;
- g. to consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions;
- h. to review the assessment of fraud risks and potential harm to the Council from fraud and corruption;
- i. to monitor the anti-fraud strategy, actions and resources;
- j. to review the governance and assurance arrangements for significant partnerships or collaboration.

#### **Internal Audit**

- k. to approve the Internal Audit Charter;
- l. to review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations;
- m. to approve the internal audit strategy and plan, including internal audit resource requirements, the approach to using other sources of assurances and any work required to place reliance upon these other sources. To approve any significant interim changes to the plan and resource requirements and make appropriate enquires of both management and the Chief Internal Auditor to determine if there any inappropriate scope or resource limitations;

- n. to consider regular reports from the Chief Internal Auditor which:
  - update on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
  - highlights concerns about progress with the implementation of agreed actions or where management has accepted a level of risk that the Chief internal Audit considers is unacceptable to the Council;
  - reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement;
- o. To consider the Chief Internal Auditor's annual report, including:
  - the statement of the level of conformance with the Public Sector Internal Audit Standards and results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit;
  - the opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement;
- p. To support the development of effective communication with the Chief Internal Auditor

### **External Audit and Financial Reporting**

- q. to consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- r. to review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
- s. to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts;
- t. to be responsible for the appointment of the Council's external auditors and ensure it is in line with the requirements of the Local Audit and Accountability Act 2014;

### **Treasury Management**

- u. to be responsible for the scrutiny of the Council's Treasury Management Strategy, including receiving regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities, risks and associated assurances;

### **Accountability arrangements**

- v. to report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions; and
- w. to report to the full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

## **Membership**

4. The Committee shall comprise 7 members, including 5 Councillors and 2 co-opted members. Councillors serving as members of the Committee shall be appointed at the Annual Council meeting of Epping Forest District Council for a term of office of one year and shall be eligible for re-appointment for further terms of office.
5. Seats on the Committee should be allocated so they are not all drawn from one political group and are also open to Councillors who are not affiliated to any political group.
6. Co-opted members shall serve for a period of 3 years from appointment. Such three year appointments shall be overlapping in terms of their expiry dates. A co-opted member may serve for a total of two such terms as of right but may be considered for two further three year terms, provided he or she is successful after open competition following public advertisement. Re-appointment for further terms shall be subject to satisfactory attendance.
7. Casual vacancies for members of the Committee who are Councillors which occur shall be filled at the next ordinary Council meeting (but not an extraordinary meeting) with a term of office expiring on the date of the next Annual Council meeting.

## **Eligibility for Membership - Councillor Members**

8. Councillors appointed to the Audit and Governance Committee may not also be members of the Cabinet or any select Committee appointed by the Overview and Scrutiny Committee with responsibility for reviewing the Council's finances or financial procedures.
9. A Portfolio Holder Assistant (other than any Assistant involved in any portfolio dealing primarily with the Council's finances) appointed by the Leader of the Council shall be eligible for appointment to the Committee.
10. Appointment of Councillors shall be made on the basis of evidence of the aptitude, experience or interest and for this purpose the normal rules for pro rata appointments shall not apply.
11. Formal attendance standards be operated in respect of the three Councillor members when reappointment is under consideration by the Council's Appointments Panel and the Chairman and co-opted members of the Audit and Governance Committee be consulted informally about the appointment or reappointment of Councillors at the appropriate time.

## **Co-opted members**

12. Co-opted members, independent of the Council, shall be appointed by the Council on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Audit and Governance Committee. Initial appointments of co-opted members and the filling of casual vacancies shall be made following public advertisement and interview, the latter conducted in accordance with arrangements agreed by the Council. If the number of suitable applicants exceeds the number of co-opted places on the Committee, the Council shall keep a waiting list of suitable applicants should casual vacancies occur.

## **Chairman and Vice-Chairman**

13. The Chairman and Vice Chairman of the Audit and Governance Committee shall be appointed at the first meeting of the Committee in each Council year for a term of one year expiring on the date of the first meeting of the Committee of the next Council year.

14. Casual vacancies in the position of Chairman and Vice-Chairman shall be filled in the same way as required in respect of members of the Committee;
15. Both Councillors and co-opted members serving on the Committee shall be eligible for appointment to the office of Chairman and Vice-Chairman.
16. Where the Chairman of the Committee is a Councillor, the Vice-Chairman will be appointed from among the Co-opted members. Where the Chairman is one of the Co-opted members, the Vice-Chairman shall be a Councillor.
17. The Chairman and Vice-Chairman shall be eligible for re-appointment.

### **Meetings of the Committee**

18. The Committee shall meet at least three times each financial year.
19. The Committee shall be entitled to require any Member, Director, their representatives or any other officer to attend their meetings in order to discuss any matters under discussion including the annual audit programme.

### **Decision Making**

20. Only the Councillors and co-opted members serving on the Committee shall be entitled to vote.
21. All members of the Committee shall be entitled to all documents advice and facilities relevant to their membership of the Committee, regardless of their status as either a Councillor or Co-opted member.

### **Other Requirements**

22. All members of the Committee shall respect the confidentiality of Council information and proceedings where appropriate, particularly where exempt or confidential business is involved.
23. All co-opted members of the Committee shall be required to make a statutory registration of interests in the same form as those required of serving Councillors and to be aware at all times of the requirement to clear any interest relating to their work on the Committee.
24. Members of the Committee should seek to attend all meetings of the Committee unless there are exceptional circumstances which prevent this.
25. All members of the Committee should ensure that they participate fully in any training designed to assist them in their responsibilities as members of the Committee. Similarly all members should act on appropriate advice and other information supplied by the Council to improve their effectiveness.



**Epping Forest District Council Audit and Governance Committee self-assessment of good practice:** This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication.

Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good Practice Questions		Yes	Partly	No
<b>Audit committee purpose and governance</b>				
1	Does the authority have a dedicated audit committee?	The Committee meets 5 times a year.		
2	Does the audit committee report directly to full council?	Council receives all minutes from the Audit and Governance Committee.		
3	Do the terms of reference (ToR) clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	The Committee reviews its ToR on an annual basis to ensure it remains up to date. The ToR was reviewed in November 2020 and is on the November 2020 agenda.		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	The Audit and Governance Committee forms part of the Council's committee structure. Its role and function are set out in the Council's Constitution.		

Good Practice Questions		Yes	Partly	No
5	Does the audit committee provide support to the Authority in meeting the requirements of good governance?	Through its Terms of Reference, reports it receives, member training, review and challenge of the Annual Governance Statement (AGS), annual accounts, representation by members and officers.		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	There are arrangements for holding the committee to account through its reporting to Council (including annual report and effectiveness review).		
<b>Functions of the committee</b>				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement: <ul style="list-style-type: none"> <li>• good governance</li> <li>• assurance framework including partnerships and collaboration arrangements</li> <li>• Internal and external audit</li> <li>• financial reporting</li> <li>• risk management</li> <li>• value for money or best value</li> <li>• counter fraud and corruption</li> <li>• supporting the ethical framework</li> </ul>	These are covered in the Committee's Terms of Reference and review of the Annual Governance Statement.  The committee is now responsible for risk management.		

Good Practice Questions		Yes	Partly	No
8	<p>Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>	<p>The committee produces an annual report and on an annual basis reviews its Terms of Reference and undertakes an effectiveness review.</p> <p>The Committee's annual report 2019/20 was approved in June 2020.</p>		
9	<p>Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?</p> <p><i>Note: CIPFA guidance states that Audit Committees can also support their authorities by undertaking a wider role in other areas including:</i></p> <ul style="list-style-type: none"> <li>• <i>considering governance, risk or control matters at the request of other committees or statutory officers</i></li> <li>• <i>working with the local standards and ethics committees to support ethical values</i></li> <li>• <i>reviewing and monitoring treasury management arrangements</i></li> <li>• <i>providing oversight of other public reports, such as the annual report.</i></li> </ul>	<p>The Committee includes treasury management as evidenced in their Terms of Reference.</p> <p>The Committee considered merging with Standards in 2019 but decided to maintain separation. This decision was endorsed by the 12 March 2020 Constitution Working Group.</p> <p>Other roles as suggested by CIPFA are adequately covered by other committees, Cabinet and the full Council.</p>		
10	<p>Where coverage of core areas has been found to be limited, are plans in place to address this?</p>	<p>Various reports received by the Committee throughout the year ensure the majority of core areas are covered. This includes the Annual Governance Statement</p>		

Good Practice Questions		Yes	Partly	No
		(AGS), Internal Audit's annual report and its regular progress reports, External Audit reports (including the Statement of Accounts), and risk management reports.		
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes.		
<b>Membership and support</b>				
12	<p>Has an effective audit committee structure and composition of the committee been selected? This should include:</p> <ul style="list-style-type: none"> <li>• separation from the executive</li> <li>• an appropriate mix of knowledge and skills among the membership</li> <li>• a size of committee that is not unwieldy</li> <li>• where independent members are used, that they have been appointed using an appropriate process.</li> <li>• consideration has been given to the inclusion of at least one independent member</li> </ul>	The Committee comprises five councillors and two Independent Members, with the main political parties represented. Each brings to the Committee a range of experiences and skills. This is supplemented with periodic member training.		
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council as appropriate for the organization?	The recruitment of two independent members is in progress.		

Good Practice Questions		Yes	Partly	No
14	Does the chairman of the committee have appropriate knowledge and skills?	Yes		
15	Are arrangements in place to support the committee with briefings and training?	The formal work programme for the Committee is reviewed at each meeting. Periodic training opportunities (internal and external) are made available to members including joint events with Broxbourne and Harlow Councils.		
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Member requirements and core knowledge and skills framework are taken into account when developing the training programme.  A formal knowledge and skills analysis was undertaken and reported to the November 2020 Audit and Governance Committee meeting.		
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes, and is the opinion of the Section 151 Officer and Chief Internal Auditor.		
18	Is adequate secretariat and administrative support to the committee provided?	Yes.		

Good Practice Questions		Yes	Partly	No
<b>Effectiveness of the committee</b>				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	The Chairman meets regularly with the Chief Internal Auditor and the S151 Officer with access to External Audit. The Committee's annual report is approved by Council.		
20	Are meetings effective with a good level of discussion and engagement from all the members?	Yes. Attendance levels are high; discussion and debate actively encouraged by the Chairman.		
21	Does the committee engage with a wider range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Officers are held to account through the Committee's review of audit reports (internal and external) and progress being made to implement recommendations. The Committee can request Officers to attend if appropriate and has done so on occasion.		
22	Does the committee make recommendations for the improvement of governance, risk and are these acted on?	This is undertaken through the Committee's work programme.		
23	Has the committee evaluated whether and how it is adding value to the organisation?	The Committee looks at itself by way of assessing its		

Good Practice Questions		Yes	Partly	No
		effectiveness and governance arrangements. The annual report assists with the process. In addition, the Committee adds value by ensuring audit recommendations are acted upon which assist Officers to spend more time doing audits.		
24	Does the committee have an action plan to improve any areas of weakness?	An action plan to address relevant issues is reported to the Committee as part of the review of effectiveness.		
25	Does the committee publish an annual report to account for its performance and explain it works?	Yes, and is approved by Council.		

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## Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
  - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
  - advancing equality of opportunity between people who share a protected characteristic and those who do not,
  - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
  - age
  - disability
  - gender
  - gender reassignment
  - marriage/civil partnership
  - pregnancy/maternity
  - race
  - religion/belief
  - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
  - Factsheet 1: Equality Profile of the Epping Forest District
  - Factsheet 2: Sources of information about equality protected characteristics
  - Factsheet 3: Glossary of equality related terms
  - Factsheet 4: Common misunderstandings about the Equality Duty
  - Factsheet 5: Frequently asked questions
  - Factsheet 6: Reporting equality analysis to a committee or other decision making body

## Section 1: Identifying details

Your function, service area and team: **Internal Audit**

If you are submitting this EqIA on behalf of another function, service area or team, specify the originating function, service area or team: **N/A**

Title of policy or decision: **Review of the Effectiveness and the Terms of Reference of the Audit Committee**

Officer completing the EqIA: Tel: **01992 564449** Email: **slinsley@eppingforestdc.gov.uk**

Date of completing the assessment: 09/11/20

## Section 2: Policy to be analysed

2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? <b>Review of existing Terms of Reference and effectiveness.</b>
2.2	Describe the main aims, objectives and purpose of the policy (or decision):  What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? <b>To approve the Audit and Governance Committee's Terms of Reference and the Committee's effectiveness.</b>
2.3	Does or will the policy or decision affect: <ul style="list-style-type: none"> <li>• service users</li> <li>• employees</li> <li>• the wider community or groups of people, particularly where there are areas of known inequalities?</li> </ul> <b>N/A</b>  Will the policy or decision influence how organisations operate? <b>N/A</b>
2.4	Will the policy or decision involve substantial changes in resources? <b>No</b>
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? <b>To improve governance processes in the Council.</b>

### Section 3: Evidence/data about the user population and consultation<sup>1</sup>

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	<p>What does the information tell you about those groups identified?  <b>N/A – Does not affect any individuals</b></p>
3.2	<p>Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision?  <b>N/A – as above</b></p>
3.3	<p>If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary:  <b>N/A – as above</b></p>

## Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

Description of impact	Nature of impact Positive, neutral, adverse (explain why)	Extent of impact Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

<b>Section 5: Conclusion</b>			
		<b>Tick Yes/No as appropriate</b>	
5.1	Does the EqlA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No ✓	
		Yes <input type="checkbox"/>	If ' <b>YES</b> ', use the action plan at <b>Section 6</b> to describe the adverse impacts and what mitigating actions you could put in place.

**Section 6: Action plan to address and monitor adverse impacts**

<b>What are the potential adverse impacts?</b>	<b>What are the mitigating actions?</b>	<b>Date they will be achieved.</b>

**Section 7: Sign off**

**I confirm that this initial analysis has been completed appropriately.  
(A typed signature is sufficient.)**

Signature of Head of Service: Sarah Marsh

Date: 09/11/20

Signature of person completing the EqlA: Sue Linsley

Date: 09/11/20

**Advice**

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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## **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Report reference: AGC-017-2020/21**  
**Date of meeting: 9 December 2020**

**Portfolio: Leader of the Council**  
**Subject: Risk Management**  
**Responsible Officer: Andrew Small (01992 564278).**  
**Democratic Services: Laura Kirman (01992 564723).**

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### **Recommendations/Decisions Required:**

- (1) To review the current risk register and consider whether there are any new or emerging risks that are not on the current Corporate Risk register that should be referred to the officer Risk Management Group**

### **Executive Summary:**

This report gives the Audit and Governance Committee the opportunity to comment on and suggest new risks for inclusion on the Corporate risk register or changes to the scoring of existing risks

### **Reasons for Proposed Decision:**

To enhance the Council's risk management framework.

### **Other Options for Action:**

None. Formal responsibility for making recommendations to Cabinet on risk management issues lies with the Audit and Governance Committee. Members may suggest new risks for inclusion or changes to the scoring of existing risks

### **Report:**

#### Corporate Risk Register

1. The corporate risk register was reviewed by the Council's Officer Risk Management Group at their meeting of 03 November 2020 where all risks were reviewed, and subsequently by the Corporate Governance Group. The narrative for each risk has been updated to reflect the current situation. In particular:

- The risk score for risk 4 (economic development) has been reduced to reflect the implementation of the priority projects agreed by Cabinet on 19 October 2020.
- Risk 12 (staff travel plan) has been removed as it is now subsumed within risk 11 (accommodation project).
- Likewise, the Qualis risk (number 13) is integral to risk 3 (financial resilience) and is no longer a standalone risk.

2. The table below outlines the direction of travel for each risk since it was updated for the September 2020 Audit and Governance, with a brief commentary supporting each risk.

No	Risk	Residual risk rating (i.e. after controls)		Commentary
		September 2020	November 2020	
1	Local Plan	<b>B1</b>	<b>B1</b>	Still waiting for adoption of the Local Plan, which has been further delayed due to the Inspector's lack of availability. Adoption by full Council now anticipated summer 2021
2	Welfare Reform	<b>A2</b>	<b>A2</b>	Updated to reflect the use a virtual hub to help signpost customers
3	Financial Resilience	<b>B1</b>	<b>B1</b>	Narrative reflects the impact of Covid-19 and Qualis in helping to manage this risk
4	Economic Development	<b>A1</b>	<b>B1</b>	This risk has been reduced as the Council delivers the agreed priority projects for Covid-19 Economic Recovery
5	Data/information	<b>C2</b>	<b>C2</b>	Actions being progressed through the officer Information Governance Group
6	Business continuity	<b>C2</b>	<b>C2</b>	As current working arrangements bed down services will be tasked to review their business continuity in light of their response to Covid-19.
7	Housing capital finance	<b>C2</b>	<b>C2</b>	The appointment of an HRA finance expert will assist the Council in putting systems in place to mitigate this risk
8	Cyber security	<b>C2</b>	<b>C2</b>	Risk being actively managed
9	Delays in issuing Planning Permissions	<b>A1</b>	<b>A1</b>	The Council is still in discussions with Natural England but progress is being made.
10	Climate emergency	<b>B2</b>	<b>B2</b>	The Council is developing an action plan with short, medium and long term targets with the overall objective of becoming carbon neutral by 2030

11	Accommodation project	C2	C2	Project progressing well and on target, with a focus on flexible working and collaboration
12	Staff travel plan	B1	n/a	The number of staff anticipated to working from the Civic offices has significantly decreased due to staff working more flexibly. Risk now subsumed within the accommodation project (risk 11)
13	Qualis	C2	n/a	Risk now articulated within risk 3 (financial resilience). Governance related risks will form the basis of the planned 2020/21 governance audit of Qualis

5. Members are now asked to consider the attached updated Corporate Risk Register (Appendix 1) and whether the risks listed are scored appropriately and whether there are any additional risks that should be included.

**Resource Implications:**

Within the report

**Legal and Governance Implications:**

The Corporate Risk Register is an important part of the Council's overall governance arrangements and that is why this Committee considers it on a regular basis.

**Safer, Cleaner and Greener Implications:**

None

**Consultation Undertaken:**

The Risk Management Group and Leadership Team were involved in the process.

**Background Papers:**

CIPFA audit committees – practical guidance for Local Authorities and Police 2018 edition

**Risk Management:**

If the Corporate Risk Register was not regularly reviewed and updated a risk that threatened the achievement of corporate objectives might either not be managed or be managed inappropriately. In addition, new or emerging risks are not considering which could threatened achievement of the Council's corporate objectives.

**Equality Analysis:**

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided as appendix 2 to the report.

### CORPORATE RISK REGISTER (November 2020)

Page 61

<b>LIKELIHOOD</b>	<b>A</b> Very High			<b>2</b>	<b>9</b>
	<b>B</b> High			<b>10</b>	<b>1</b> <b>3</b> <b>4</b>
	<b>C</b> Medium			<b>5</b> <b>6</b> <b>7</b> <b>8</b> <b>11</b>	
	<b>D</b> Low / Very Low				
		<b>4</b> Insignificant	<b>3</b> Minor	<b>2</b> Moderate	<b>1</b> Major
<b>IMPACT</b>					

RISK NO.	RISK SCORE	DESCRIPTION
1	B1	Local Plan
2	A2	Welfare Reform
3	B1	Financial Resilience
4	B1	Economic Development
5	C2	Data/Information
6	C2	Business Continuity
7	C2	Housing Capital Finance
8	C2	Cyber Security
9	A1	Delays in issuing Planning Permission
10	B2	Climate Emergency
11	C2	Accommodation project

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 1</b>  <b>Local Plan</b>	<p><b>Vulnerability:</b> Without an adopted Local Plan and with the introduction of the Housing Delivery Test from November 2018, the Council's ability to deliver housing at the required rate will lead to the presumption in favour of sustainable development being applied and the requirement to prepare an action plan.</p> <p><b>Consequence:</b> Without an adopted plan setting the Council's housing requirement at 518 the measurement used will be the 2014 household projection figures/standard method for assessment with an annual requirement of 923 homes. This will result in vulnerability to planning appeal decisions and potential development in the Green Belt as the presumption in favour of sustainable development will apply. (Note the published 2018 household projection figures have resulted in an annual requirement of 868 homes per annum)</p>	<p>The failure to deliver at the required threshold set out in the NPPF of 95% of the housing requirement over the previous three years triggers a requirement for the Council to prepare an action plan in line with national planning guidance to assess the causes of under delivery and identify actions to increase delivery. Although there are transitional arrangements with lower thresholds for November 2018 and 2019, the delay in submitting the Local Plan as a result of the Judicial Review and Natural England's requirement not to issue planning decisions until a mitigation strategy is in place for Epping Forest SAC, is likely to have ongoing consequences for delivery. There is now further delay as a result of Natural England's objections to the Habitat Regulations Assessment, which has led to the Inspector's advice that further work is required to inform the mitigation strategy, which is now almost complete.</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>1) Local Plan Submission Version 2017 agreed by Council on 14 December 2017 and published between 18 December 2017 and 29 January 2018. Following the JR the plan was submitted for examination in September 2018 and took place between February &amp; June 2019. The Inspector's advice issued on 2 August 2019 requires the Council to undertake further work to support the Local Plan, which is now underway.</p> <p>2) Revised Local Development Scheme (LDS) adopted by Local Plans Cabinet Cttee 22 November 2018 following submission of plan for independent examination. this will be updated once there is some certainty on programme for consultation on MMs.</p> <p>3) Systematic approach to Duty to Co-operate, engaging public bodies including Natural England and the Conservators.</p> <p>4) Consultants in place to support project management, resource planning, Sustainability Assessment, transport modelling, master planning.</p> <p>5) Regular reports at officer and Member level through the Cooperation for Sustainable Development Group.</p>	<b>HIGH</b>	<b>MAJOR</b>	<b>B1</b>	<p>1) A revised timeline of the programme of work for the final tranche of the Main Modifications (MM) agreed with the Local Plan Inspector. Regular updates are provided and posted on the Council's website. The last update was provided on 2 October 2020 in which the Inspector explained that due to other commitments there would be a delay in reviewing the MMs submitted as agreed in September. The MM consultation due late October for 6 weeks is therefore delayed which will push back the adoption to Spring/Summer 2021.</p> <p>2) Review progress against new key milestones</p> <p>3) Important that key decisions do not precede Duty to Co-operate i.e. "fait accompli".</p> <p>4). Scrutiny Function to be undertaken by Stronger Place Select Committee</p>	Planning Services Director	Regular programme meetings (but at least monthly)

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 2</b> <b>Welfare Reform</b>	<p><b>Vulnerability:</b> The government has pledged to make substantial savings from the overall welfare bill. This will require a major reform of the welfare system which is likely to have serious impacts on the Council and the community. This includes Universal Credit, changes to Council Tax and other benefits and direct payments to tenants.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>• Tenants no longer able to afford current/new tenancies.</li> <li>• Increase in evictions and homelessness</li> <li>• Increased costs of temporary accommodation</li> <li>• Unable to secure similar level of income due to payment defaults</li> <li>• Increase in rent and Council Tax arrears</li> <li>• Public dissatisfaction</li> <li>• Criticism of the Council for not mitigating the effects for residents.</li> </ul>	Welfare reform changes have a detrimental effect on the Council and community.	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Cross-service and sector working group established to access impacts of the introduction of Universal Credit and to produce an action plan to mitigate the effects.</p> <p>Working group has been created to meet on a regular basis.</p> <p>Action Plan developed in 2019/20 by baselining the effects of Universal Credit is being implemented in 2020/21. A multi-agency hub has been created in Waltham Abbey to act as a one stop shop for vulnerable residents and is seen as a potential model for the district in affected areas. Covid lockdown has temporarily curtailed this. A virtual portal has been created to provide a resource for customers to use that signposts them to the online services from partners involved in the physical hub. It is currently targeting those who are at highest risk when furlough ceases i.e. younger working age</p>	<b>VERY HIGH</b>	<b>MODERATE</b>	<b>A2</b>	To continue to develop the online customer offering and nuance it according to changing circumstances.	Customer Services Director	Monthly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 3</b>  <b>Financial Resilience</b>	<p><b>Covid-19</b></p> <p>The Council has had a strong Balance Sheet for several years with a high level of unallocated General Fund Reserves. However, the impact of Covid-19 is posing a significant threat to accumulated reserves; there is also some legacy risks to the base budget as income streams from sources such as car parking and leisure may never recovery to pre-pandemic levels. The following matters therefore assume heightened importance;</p> <p><b>Qualis Income</b></p> <p>Securing planned income returns from the LACTO initiative is vital to maintaining financial self-sufficiency and avoiding service cuts; and</p> <p><b>Financial Control</b></p> <p>Tighter financial control is essential in a more challenging financial environment that lies ahead</p>	<p>Covid-19 estimated overall financial pressure £7.782m (at 24 October 2020)</p> <p>Slippage in timetabled income and benefits from Qualis initiative (although positive progress being made)</p> <p>Corporate financial planning, management and reporting processes in transition following significant upheaval during 2019/20.</p> <p>CIPFA Financial Management Code effective from 1 April 2021: step change improvement required to achieve compliance</p>	<b>MAJOR</b>	<b>VERY HIGH</b>	<b>A1</b>	<p><b>Covid-19</b></p> <p>Short term financial impacts controlled through management of Government support packages and budgetary control mitigation measures in 2020/21</p> <p>Medium/Long Term financial impacts to be managed through Medium Term Financial Planning Process (first iteration of 2021/22 to 2025/26 due to Cabinet in November 2020)</p> <p><b>Qualis</b></p> <p>Council's interests directly overseen and managed by Section 151 Officer with tailored support from specialist professional advisors</p> <p><b>Financial Control</b></p> <p>Process improvements being rolled out by Deputy S151</p> <p>Interim support for Finance Team to address temporary capacity shortages; permanent solution under development</p> <p>Specialist professional advice utilised to address specific risks to Housing Revenue Account</p> <p>Continued improvement in monitoring</p>	<b>HIGH</b>	<b>MAJOR</b>	<b>B1</b>	<p>Deliver updated Financial Planning Framework for 2021/22 to 2025/26 (adopted by Cabinet 2020), including developing a sustainable budget for 2021/22 that addresses underlying structural deficit (either in one-year or over an extended period, through the selected use of reserves).</p> <p>Complete transformation of Finance function</p>	Strategic Director & 151 Officer	Monthly



REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 4</b> <b>Economic Development</b>	<p><b>Vulnerability:</b> Economic development and employment is very important, particularly in the current economic climate. The Council needs to be able to provide opportunities for economic development and employment (especially youth employment) in the District.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>• Unable to secure sufficient opportunities</li> <li>• Local area and people lose out</li> <li>• Insufficient inward investment</li> <li>• Impact on economic vitality of area</li> <li>• Loss of revenue</li> </ul>	<p>Risk that Council performs relatively poorly compared to other authorities.</p> <p>Risk remains high in terms of the general economy, however, the Council is making good headway in terms of the Council's response to Covid-19 and economic recovery. For example, from the initial appraisal of Waltham Abbey, that there is a lower vacancy rate than the national average; assessed as being 5%. In addition, the Council has no vacant commercial premises.</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Economic Development Plan (Nurturing Growth) was drafted and presented to Economic Development Board and subsequently to Cabinet Cttee for approval. Cabinet requested further consultation with stakeholders, and this was carried out through October &amp; November, culminating in a consultation event on November 13<sup>th</sup>. A revised Economic Strategy and associated report was submitted to Cabinet in May which was agreed and contained a request for additional staff to undertake High Street Recovery work.</p> <p>With the impact of Covid-19 a completely new action plan has been developed which considers a range of options for recovery of local high streets as this is now seen as the priority for Economic Development.</p>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>B1</b>	<p>At its' meeting of 19<sup>th</sup> Oct, Cabinet formally agreed the priority projects for Covid Economic Recovery; these include regeneration of the five Town Centres in the District, Employment and skills, NWA Business Zone, Sustainable Transport and Local Gazetteer. A decision was made to remove the Digital Gateway for Place project.</p> <p>The work on these projects will serve to help recovery and sustainability of the local economy, but will not provide certainty for local businesses. Therefore the risk for the local economy remains high</p>	Community and Partnerships Service Director	Monthly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 5</b>  <b>Data / Information</b>	<p><b>Vulnerability:</b> The authority handles a large amount of personal and business data. Either through hacking or carelessness, security of the data could be compromised.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>Breach of the 2018 Data Protection Act (DPA) and the General Data Protection Regulations leading to significant fines or/and intervention by the Information Commissioner's Office (ICO)</li> <li>Increased costs and legal implications</li> <li>Reputation damaged and loss of public confidence</li> </ul>	<p>Risk of data held by the Council ends up in inappropriate hands. System loss. Generally effective to date, with no significant lapses since the introduction of the 2018 DPA.</p> <p>The work programme for the Information Governance Group, who oversees this risk, is comprehensive but has limited resource to progress the work.</p>	<b>HIGH</b>	<b>MAJOR</b>	<b>B1</b>	<p>Significant work was undertaken by the Council to ensure it was compliant in time for the introduction of the GDPR in May 2018. This included review of policy and procedures, staff and Member training and awareness, completing an information asset register/register of processing activities and reviewing security of data arrangements.</p> <p>The Council continues to have a designated Data Protection Officer in post and a system of data breach and subject access request monitoring in place.</p> <p>A recent audit on data retention and disposals has been completed which identified a number of actions.</p> <p>A Senior Information Risk Owner has been identified and an Information Governance Group has been formed. In addition, an Information Governance Group and Information Asset Owner Group has been set up.</p> <p>The Information Governance Group has put together a draft work programme and other acts will be reviewed and monitored through this Information Governance Group</p>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>C2</b>	<p>The introduction of the Information Governance Group is reviewing current arrangements and ensure these are strengthened where required.</p> <p>The IGG will work with the Information Asset Owner Group to embed understanding of the importance of information governance across the authority.</p> <p>The IGG Work Programme will need to be prioritised and the expectations of the organisation managed.</p> <p>A Retention and Disposals Policy will be launched by mid November</p> <p>Additional support will be put in place to assist service areas to coordinate and collate FOI/SARS requests. This is in addition to the FOI/SARS Support Officer.</p>	Service Director – Business Services (SIRO)	Quarterly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 6</b>  <b>Business Continuity</b>	<p><b>Vulnerability:</b> The Council is required to develop and implement robust Business Continuity Plans in line with the requirements of the Civil Contingencies Act. Following the re-organisation and negative outcomes from Internal Audit's review plans need to be updated and changes in responsibilities confirmed.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>• Services disrupted / Loss of service</li> <li>• Possible loss of income</li> <li>• Staff absence</li> <li>• Hardship for some of the community</li> <li>• Council criticised for not responding effectively</li> </ul>	<p>An Internal Audit of Business Continuity arrangements identified a number of weaknesses which were addressed through the BC project. An external consultant has been engaged to develop the strategy and provide coaching to staff to develop plans. This has largely been completed and an exercise to test was undertaken in Feb 2020.</p> <p>All departments now have their own departmental BC plans Corporate strategy now sits above all plans and has been tested</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Improvement of current business continuity (BC) management arrangement is currently in progress.</p> <p>Our organisational response to the current covid-19 emergency demonstrates a generally effective BCP with essential services / critical functions continuing.</p> <p>Next phase is to co-ordinate the review and updating of plans on an ongoing progressive program.</p>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>C2</b>	<p>Following the desktop exercise scenario earlier this year, and as a result of covid-19 emergency, Service Plan owners are tasked with reviewing their plans and amending and adjusting accordingly. This work will start January 2021 and be completed by March 2021.</p> <p>Alongside this the Emergency Planning Officer will review the Corporate BC Plan from January 2021</p>	Business Services Director	Quarterly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 7</b>  <b>Housing Capital Finance</b>	<p><b>Vulnerability:</b> If the Council is unable to spend right to buy receipts in set timescale on qualifying capital schemes, we will have to pay the money to the Government along with interest at a penalty rate.</p> <p>Changes to legislation which reduce income to the HRA.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>• Loss of capital resources</li> <li>• Revenues cost of penalty interest</li> <li>• Loss of rental income</li> <li>• Delays in provision of new social housing</li> <li>• Increase in housing waiting list</li> <li>• Current 30-year business plan may become unsustainable.</li> </ul>	<p>Risk schemes are delayed by either the planning process or unanticipated site problems.</p> <p>Imposition of further restrictions on rent levels.</p>	<b>HIGH</b>	<b>MODERATE</b>	<b>B2</b>	<p>1) Position being monitored by the House Building Cabinet Committee and a number of contingency options are available including purchasing homes or land on the open market or purchasing from S106 developments. A Consultant has been engaged to work to utilise the receipts before the deadline of the end financial year.</p> <p>2) The Council belongs to the Association of Retained Council Housing which lobbies on such issues.</p> <p>3) The development team are working with finance to develop reports to enable clear visibility around capital funding</p>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>C2</b>	<p>1) Loss of right to buy receipts is minimised.</p> <p>2) Impact of Policy changes is minimised as far as possible.</p> <p>3) Financial reporting requirements to be developed to ensure clear accounting and governance</p> <p>4) The appointment of a HRA finance expert has been agreed. They will assist the Council in putting systems in place to mitigate risk</p>	Service Manager Housing Management and Home Ownership	Monthly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 8</b> <b>Cyber Security</b>	<p><b>Vulnerability:</b> The Authority handles a large amount of personal and business data. Either through hacking or carelessness, security of the data could be compromised.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>Loss of system access and/or data</li> <li>Unable to provide Council services</li> <li>Increased costs</li> <li>Reputation damaged</li> <li>Ransomware payment</li> <li>Corporate fines</li> </ul>	<p>Risk of data held by the Council ends up in inappropriate hands. System loss. However, no loss of data. Systems have remained protected from cyber-attack.</p> <p>EFDC is targeted directly. Unknown vulnerabilities in systems. Misconfigured systems. EFDC staff error. Disgruntled EFDC staff.</p> <p>System Loss, Data unavailable, Data stolen, Data changed,</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Security Officer is continually monitoring situation and potential risks. Most systems have in built controls to prevent unauthorised access.</p> <p>Controls in systems have been strengthened in response to specific occurrences.</p> <p>IT monitoring &amp; installing system updates &amp; patches</p> <p>Data is backed up daily with forty days retained. Three backups are also stored off site.</p> <p>Staff training.</p>	<b>HIGH</b>	<b>MODERATE</b>	<b>C2</b>	Continued monitoring & researching security attack methodologies and best practice procedures	Business Services Director	Quarterly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 9</b> <b>Delays in issuing Planning Permission</b>	<p><b>Vulnerability:</b> Delays in issuing Planning Permission for development due to objections by Natural England regarding the impact of development on air quality in Epping Forest SAC.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>Delays in granting Planning Permission in the District and getting an adopted Local Plan in place.</li> <li>Loss of New Homes Bonus</li> <li>Restricted Business Rates tax base growth</li> <li>Reputation damaged</li> </ul>	The Habitats Regulations Assessment (HRA) January 2019 found that the Plan would be likely to have a significant effect upon the Epping Forest Special Area of Conservation (the SAC) in respect of both atmospheric pollution and disturbance from recreation & urbanisation.	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Regular meetings held with key stakeholders including Natural England to update the HRA and develop a mitigation strategy. Interim mitigation strategy was agreed by Council in October 2018 to mitigate the impact of recreational pressure on the Forest and Natural England have confirmed it is appropriate. Draft Air Pollution Strategy was agreed by Cabinet in July 2020 for further consultation with Natural England. An update HRA has been prepared and comments received from Natural England on 11 September 2020. Leading Counsel's advice and further updates were sent to NE on 29 September and a meeting held on 15 October. As a result of further comments received on 23 October further amendments are being made with a view to finalising the APMS and policy wording in the Local Plan.</p> <p>Budget has been set aside to buy in additional resource to assist with issuing planning decisions once this strategy has been agreed. A draft template S106 is currently being finalised</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Mitigation strategy in place for both recreational pressure and air quality issues.</p> <p>Interim air pollution strategy has been prepared and updated following July 2020 Cabinet in light of the draft 2020 HRA.</p> <p>Legal Opinion and a note for NE has been prepared following their comments on the draft amended policies on Air Quality and EFSAC.</p> <p>The Chief Executive and PFH meeting with NE representatives on 3 November has been postponed. Work is progressing to achieve final sign off of the APMS under delegated powers.</p>	Planning Services Director	Monthly – regular updates are being provided to the inspector

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 10</b> <b>Climate Emergency</b>	<p><b>Vulnerability:</b></p> <p>The Council declared a climate emergency and has pledged to do everything within its power to make the Epping Forest District carbon neutral by 2030.</p> <p>The Council has identified a number of initial areas of focus, including: Local Plan site allocations achieving high standards of sustainability; carbon reduction of council owned properties; the promotion of sustainable transport and implementing an air quality strategy.</p> <p><b>Consequence:</b></p> <ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Increased costs from Climate Change Mitigation requirements</li> </ul>	Failure in achieving identified carbon reduction targets and taking action to reach the carbon neutral District by 2030 pledge.	<b>VERY HIGH</b>	<b>MODERATE</b>	<b>A2</b>	A Climate Change Officer and a Sustainable Transport Officer have started in post. They are working to develop an action plan with short, medium and long term targets with the overall objective of becoming carbon neutral by 2030. The action plan will cover all service areas so a workshop is taking place with key officers to capture projects and initiatives both undertaken and planned that will contribute to the action plan.	<b>HIGH</b>	<b>MODERATE</b>	<b>B2</b>	<p>Agree on short term priority climate and sustainable transport actions to propose to Cabinet in December. Continued development of the action plan using knowledge gained from the workshop and appraisal of possible carbon reduction initiatives to identify suitable targets.</p> <p>The move to staff working from home and covid-19 associated projects including increasing active travel as part of the Safer Places project for High Street recovery, will contribute towards a positive impact on carbon reduction</p>	Chief Operating Officer	Quarterly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 11</b>  <b>Accommodation project</b>	Failure of the accommodation project to deliver: <ul style="list-style-type: none"> <li>New ways of agile working</li> <li>Better use of Council assets</li> <li>Financial savings</li> </ul> which ultimately impacts on the Council's objectives and delivery of services	<p><b>Background:</b> The Council has embarked on ambitious plan for the renovation and refurbishment of the civic offices that will involve a decant and repopulation of staff and Members. As well as offering space to external partners.</p> <p><b>Effects</b></p> <ul style="list-style-type: none"> <li>Need to ensure IT resilience that supports agile working practices</li> </ul>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<ul style="list-style-type: none"> <li>Contractor ISG started refurbishment in July and programme is progressing well. Current target completion date is mid-March 2021.</li> <li>Currently in the process of planning how the space will be utilised with a focus on flexible working and collaboration</li> <li>Monthly Accommodation Board meeting manages risks and issues raised by workstream leads</li> <li>Lessons learned from C19 will inform the new ways of working focused on collaboration.</li> </ul>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>C2</b>	<p>Embed new ways of working based on the space created and how it will be used. Align with digital collaboration tools for office based and remote working.</p> <p>Hire of a change manager to support the embedding of New Ways of Working</p> <p>Financial savings will be realised through the development of the Conder building via Qualis</p>	Strategic Director	Monthly



REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 12 Staff Travel plan</b>	Failure of the Staff Travel Plan compromises the ability of collaborative working at the Civic Offices  Potential knock on effect of being able to lease out office space (links with risk 11 above – accommodation project)	Failure to develop and implement a park and share solution at NWA due to cost, not getting planning permission and not finding a way to transport staff from NWA to Civic.  Inability to free up parking spaces for Civic office tenants  This, however, has been superseded by the flexible working arrangements developed as a result of Covid-19. There are a limited number of bookable car parking spaces at Civic Offices	<b>HIGH</b>	<b>MODERATE</b>	<b>B2</b>	Demand responsive transport, car share and dynamic car park booking and usage systems to be developed.  Staff continue to work from home	<b>HIGH</b>	<b>MAJOR</b>	<b>B4</b>	Embed new ways of working based on the space created and how it will be used. Align with digital collaboration tools for office based and remote working. This is being overseen by the Accommodation Board.	Service Director Contracts and Technical Services	Monthly

REF	RISK (IF - THEN)	BACKGROUND - CAUSE/EFFECT	LIKELIHOOD	IMPACT	INHERENT RISK RATING	MITIGATION / CURRENT CONTROLS	LIKELIHOOD	IMPACT	RESIDUAL RISK RATING	FURTHER ACTION REQUIRED (INCLUDE TIMESCALES)	RISK OWNER	COMPLETION REVIEW DATE
<b>Risk No 13</b> <b>Qualis</b>	The Council is heavily reliant on income from Qualis e.g. margin on loans, shared services and ultimately dividends from 2020/21.	<p>Much of the income from Qualis is relatively risk free but delays in development planning approvals could significantly impact on the timing of income; also for asset purchase and construction finance leading to a loss of Council income in 202/21 meaning developments cannot go ahead.</p> <p>The set up of the Qualis Management company has been completed</p>	<b>VERY HIGH</b>	<b>MAJOR</b>	<b>A1</b>	<p>Oversight through the Group Company Steering Group/ interim Board until the Qualis Board is in place.</p> <p>Annual review of Qualis business cases and Business Plans by Cabinet.</p> <p>Impact of the Qualis annual business case feeds into EFDC's Annual Budget for approval by Cabinet and recommended for approval to Council.</p> <p>Cabinet decision on any loans to Qualis.</p> <p>Quarterly progress reports from Qualis to Cabinet.</p> <p>Section 151 Officer able to exercise the "open book" requirement and report to Cabinet.</p>	<b>MEDIUM</b>	<b>MODERATE</b>	<b>2</b>	The Section 151 Officer will act on behalf of EFDC as the main conduit with Qualis Group and other Qualis Companies.	Section 151 Officer	Monthly

# Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
  - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
  - advancing equality of opportunity between people who share a protected characteristic and those who do not,
  - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
  - age
  - disability
  - gender
  - gender reassignment
  - marriage/civil partnership
  - pregnancy/maternity
  - race
  - religion/belief
  - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
  - Factsheet 1: Equality Profile of the Epping Forest District
  - Factsheet 2: Sources of information about equality protected characteristics
  - Factsheet 3: Glossary of equality related terms
  - Factsheet 4: Common misunderstandings about the Equality Duty
  - Factsheet 5: Frequently asked questions
  - Factsheet 6: Reporting equality analysis to a committee or other decision making body

## Section 1: Identifying details

Your function, service area and team: **Strategic Director**

If you are submitting this EqlA on behalf of another function, service area or team, specify the originating function, service area or team:

Title of policy or decision: **Risk Management report**

Officer completing the EqlA: Tel: **01992 564446** Email: **smarsh@eppingforestdc.gov.uk**

Date of completing the assessment: 09/11/20

## Section 2: Policy to be analysed

2.1	Is this a new policy (or decision) or a change to an existing policy, practice or project? <b>No</b>
2.2	Describe the main aims, objectives and purpose of the policy (or decision): <b>N/A</b> What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)? <b>N/A</b>
2.3	Does or will the policy or decision affect: <ul style="list-style-type: none"><li>• service users</li><li>• employees</li><li>• the wider community or groups of people, particularly where there are areas of known inequalities?</li></ul> <b>N/A</b>  Will the policy or decision influence how organisations operate? <b>N/A</b>
2.4	Will the policy or decision involve substantial changes in resources? <b>N/A</b>
2.5	Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes? <b>N/A</b>

### **Section 3: Evidence/data about the user population and consultation<sup>1</sup>**

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

3.1	What does the information tell you about those groups identified? <b>N/A</b>
3.2	Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision? <b>N/A</b>
3.3	If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary: <b>N/A</b>

## Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

Description of impact	Nature of impact Positive, neutral, adverse (explain why)	Extent of impact Low, medium, high (use L, M or H)
Age	N/A	N/A
Disability	N/A	N/A
Gender	N/A	N/A
Gender reassignment	N/A	N/A
Marriage/civil partnership	N/A	N/A
Pregnancy/maternity	N/A	N/A
Race	N/A	N/A
Religion/belief	N/A	N/A
Sexual orientation	N/A	N/A

## Section 5: Conclusion

		Tick Yes/No as appropriate	
5.1	Does the EqIA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups?	No <input checked="" type="checkbox"/>	
		Yes <input type="checkbox"/>	If ' <b>YES</b> ', use the action plan at <b>Section 6</b> to describe the adverse impacts and what mitigating actions you could put in place.

## Section 6: Action plan to address and monitor adverse impacts

What are the potential adverse impacts?	What are the mitigating actions?	Date they will be achieved.



**Section 7: Sign off**

**I confirm that this initial analysis has been completed appropriately.  
(A typed signature is sufficient.)**

Signature of Head of Service: Andrew Small

Date: 09/11/20

Signature of person completing the EqlA: Sarah Marsh

Date: 09/11/20

**Advice**

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.

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## **Report to the Audit & Governance Committee**



**Report reference: AGC-018-2020/21**

**Date of meeting: 9 December 2020**

**Portfolio: Finance & Economic Development**

**Subject: Treasury Management Mid-Year Update 2020/21**

**Responsible Officer: Andrew Small (01992 564278).**

**Democratic Services: Laura Kirman (01992 564243).**

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### **Recommendations/Decisions Required:**

- (1)** To note the Treasury Management Mid-Year Update 2020/21 (**Appendix A**) and pass comment for full Council.
- (2)** To consider and recommend for approval to full Council, the Minimum Revenue Provision Statement (MRP) 2020/21 (**Appendix B**).

### **Executive Summary:**

The Council's current Treasury Management Strategy was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019; it was a three-year strategy covering the financial years 2019/20, 2020/21 and 2021/22.

In accordance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice, the Treasury Management Mid-Year Update for 2020/21 (presented in *Appendix A*) sets out the Council's actual Treasury Management activity for the first six months of 2020/21 (i.e. April to September 2020).

*Appendix A* begins by setting the external context for first half of 2020/21 by exploring the Economic Background, Financial Markets and Credit Ratings; this includes a discussion on the fundamental impact of the Covid-19 Pandemic.

The Borrowing and Investment position for Epping Forest DC as at 30th September 2020 shows the following:

- Borrowing – external borrowing rose by £16.0 million (from £224.5 million to £240.5 million) during the period April to September 2020; and
- Investments – there was a reduction of £20.9 million (from £22.1 million to £1.2 million) during the same period.

CIPFA's revised Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds, primarily for financial return. The report therefore also considers the Council's Commercial Property Portfolio, which delivered Net Income of £3.717 million during the first six months of 2020/21 and continues to be a key part of the Council's strategy to minimise Council Tax increases. There is however a risk of some future commercial income losses due to economic uncertainty caused by the Covid-19 pandemic affecting tenants.

*Appendix A* concludes by considering compliance with the Council's adopted Treasury Management indicators. Full compliance was achieved with most indicators. However, the cash flows experienced during the early part of 2020/21 were completely un-precedented as the Government suddenly distributed huge emergency support funding for Covid-19 to billing authorities. This led to some unavoidable breaches of the Council's Investment Limits. Cash flows have subsequently stabilised with the Council holding total bank deposits of £1.2 million as at 30th September 2020.

In addition, *Appendix B* presents a draft updated Minimum Revenue Provision (MRP) Statement for 2020/21, for consideration by the Committee. This provides essential clarification in the light of the Council's recently expanded capital investment activities. In particular, the treatment of external loans is considered, including the treatment of capital receipts arising from principal repayments.

#### **Reasons for Proposed Decision:**

To enable the robust scrutiny the Council's Treasury Management performance in 2020/21 in compliance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice.

#### **Legal and Governance Implications:**

The Local Government Act 2003 created a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by CIPFA as a professional Code of Practice to support local authority decision making in capital investment and financing. Local authorities are required by regulation to have regard to the Prudential Code.

**Safer, Cleaner and Greener (SCG) Implications:**

None.

**Background Papers:**

Treasury Management Strategy Statement 2019/20 (Audit and Governance Committee, 28th January 2019).

(MHCLG) Statutory Guidance on Local Government Investments (3rd Edition).  
Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

**Risk Management:**

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

Borrowing and Investment decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Strategy includes several Risk Management features, including – for example – the overriding priority that security of deposit takes precedence over return on investment.

### Treasury Management Mid-Year Update 2020/21

#### Introduction

The Council has adopted CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve Treasury Management semi-annual ("mid-year updates") and annual reports.

The Council's current Treasury Management Strategy was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019; it was a three-year strategy covering the financial years 2019/20, 2020/21 and 2021/22. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21st February 2019.

#### External Context: April to September 2020

**Economic Background:** The spread of the Covid-19 pandemic dominated during the first six months of this financial year, as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the Government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a huge 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EHO scheme.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay).

**Financial Markets:** Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

**Credit Review:** Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on Arlingclose's counter party list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

### **Local Context**

On 31st March 2020, the Council had net borrowing of £202.314 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31/03/20 Actual £m</b>
General Fund CFR	96.394
HRA CFR	153.815
<b>Total CFR</b>	<b>250.209</b>
Less: Other Debt liabilities	0
<b>Borrowing CFR</b>	<b>250.209</b>
Less: External borrowing	-224.456
<b>Internal borrowing:</b>	
Less: Usable reserves	-47.538
Less: Working capital	-0.357
<b>Net Investments</b>	<b>22.142</b>

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

The Treasury Management position as at 30th September 2020 and the change during the first six months of the financial year is shown in Table 2 below.



**Table 2: Treasury Management Summary**

	31/03/20 Balance £m	Movement £m	30/09/20 Balance £m	30/09/20 Rate %
Long-term Borrowing	210.5	+30.0	240.5	2.86
Short-term Borrowing	14.0	-14.0	0	N/A
<b>Total Borrowing</b>	<b>224.5</b>	<b>+16.0</b>	<b>240.5</b>	
Long-Term Investments	0	0	0	N/A
Short-term Investments	0	0	0	N/A
Cash and Cash Equivalents	22.1	-20.9	1.2	0.01
<b>Total Investments</b>	<b>22.1</b>	<b>-20.9</b>	<b>1.2</b>	
<b>Net Borrowing</b>	<b>202.4</b>		<b>239.3</b>	

The Council's cash flows during April to September 2020 were unprecedented, primarily due to the Covid-19 pandemic, although things were beginning to settle down by September. Thus:

- Long-Term Borrowing – the £30 million increase in long-term borrowing presented above represents a PWLB loan taken out in September, to finance a capital investment loan to Qualis for the same amount
- Short-Term Borrowing – short-term borrowing of £14.0 million from other local authorities secured in late March 2020, was repaid in April 2020; and
- Cash and Cash Equivalents – following an unprecedented peak in cash holdings during April 2020 (especially due to the impact of the Covid-19 pandemic), cash balances gradually stabilised and had returned to more normal levels by the end of the period.

## **Borrowing Update**

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB), available from 12th March 2020 and £1.15 billion of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The "Future Lending Terms" consultation allowed key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

## **Borrowing Strategy**

At 30th September 2020 the Council held £240.5 million in loans (an increase of £30.0 million compared to the position as at 31st March 2020), as part of its strategy for funding the Capital Programme. Outstanding loans on 30th September 2020 are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31/03/20 Balance £m</b>	<b>Net Movement £m</b>	<b>30/09/20 Balance £m</b>	<b>30/09/20 Weighted Average Rate %</b>	<b>30/09/20 Weighted Average Maturity (years)</b>
	210.5	+30.0	240.5	2.86%	22.3
Public Works Loan Board	0	0	0	N/A	N/A
Banks					
Local authorities (long-term)	0	0	0	N/A	N/A
Local authorities (short-term)	0	0	0	N/A	N/A
	14.0	-14.0	0	N/A	N/A
<b>Total Borrowing</b>	<b>224.5</b>	<b>16.0</b>	<b>240.5</b>		

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

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

## **Other Debt Activity**

The Council did not raise any other capital finance in the first six months of 2020/21.

## **Treasury Investment Activity**

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held, and money borrowed in advance of need. During the first six months of 2020/21, the Council's investment balances ranged between circa £1 million and £70 million; this was due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

**Table 4: Treasury Investment Position**

	<b>31/03/20 Balance £m</b>	<b>Net Movement £m</b>	<b>30/09/20 Balance £m</b>	<b>30/09/20 Income Return %</b>	<b>30/09/20 Weighted Average Maturity Days</b>
Banks & building societies (unsecured)	22.1	-21.5	1.2	0.01	Instant Access
Government (incl. local authorities)	0	0	0	N/A	N/A
Money Market Funds	0	0	0	N/A	N/A
<b>Total Investments</b>	<b>22.1</b>	<b>-20.9</b>	<b>1.2</b>		

Both the CIPFA Code and Government guidance requires local authorities to invest funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

## **Non-Treasury Investments**

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

The Council also holds a significant commercial property portfolio on its Balance Sheet, which are summarised in Table 5 below.

**Table 5: Commercial Property Investments**

<b>Category</b>	<b>31/03/20 Balance Sheet Value</b>	<b>Net Income 2020/21 (6 months April - September) ***</b>
Shops*	£94.765m	£2.855m
Industrial Units	£32.011m	£0.738m
Other**	£11.250m	£0.124m
<b>Total Value/Net Income</b>	<b>£138.026m</b>	<b>£3.717m</b>

\*Includes Public Houses and a Petrol Station

\*\*Includes North Weald Airfield and Tennis Centre

\*\*\*Excludes (year-end) recharges

The Council received total net income of £6.216 million from Commercial Property Investments in 2019/20, so Table 5 shows a positive position for the first six months of 2020/21, with the numbers reflecting the additional revenue generated by new Commercial Property acquisitions in December 2019 at Loughton High Road (Shops) and Brooker Road (Industrial Units).

The Committee should note that the numbers reflect the accrued position currently in the Council's books, which does not take account of the collectability of income. So far, there have been no write-offs due to the affects of the Covid-19 pandemic, with the Council's portfolio appearing reasonably resilient at this stage (e.g. anecdotally, demand from prospective tenants for void properties seems to be holding up). However, an increase in write-offs cannot be ruled out in the future given the current economic climate.

### **Compliance**

The Strategic Director and Section 151 Officer reports that all Treasury Management activities undertaken during the first six months of the year complied fully with the CIPFA Code of Practice. However – in 2020/21 –regarding the approved Treasury Management Strategy:

- Debt Limits – full compliance achieved
- Investment Limits – the £3.0 million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. With a peak cash holding £70.5 million held in mid-April 2020, this was a completely unprecedented event, and due to a combination of the Council's anticipated

cash requirements in April 2020 and the unexpected receipt of a major funding allocation from central Government as part of the Covid-19 Business Support grant initiative; and

- *Liquidity Indicator* – the Council also briefly dropped below its £3.0 million Liquidity Indicator (“Minimum Available Cash Within 3 Months”) at the end of September 2020. This was corrected by short-term borrowing in October 2020.

Compliance with the Operational Boundary and Authorised Limit for external debt is demonstrated in Table 7 below.

**Table 7: Debt Limits**

	<b>2020/21 Maximum</b>	<b>30/09/20 Actual</b>	<b>2020/21 Operational Boundary</b>	<b>2020/21 Authorised Limit</b>	<b>Complied? (Yes/No)</b>
Borrowing	£240.5m	£240.5m	<b>£280.0 million</b>	<b>£290.0 million</b>	<b>Yes</b>
Finance Leases	0	0			
<b>Total Debt</b>	<b>£240.5m</b>	<b>£240.5m</b>			

Since the Operational Boundary is a management tool for in-year monitoring it is not significant if it is breached on occasions due to variations in cash flow; this is not counted as a compliance failure. Total debt did not breach the Operational Boundary during the year.

**Table 8: Investment Limits**

	2020/21 Maximum	30/09/20 Actual	2020/21 Limit	Complied? (Yes/No)
<b>Any single organisation, except the UK Government</b>	<b>£70.5m</b>	<b>£1.2m</b>	<b>£3.0m each*</b>	<b>No</b>
UK Government (including local authorities)	£8.0m	0	Unlimited	Yes
Any group of organisations under the same ownership	0	0	£3.0m per group	Yes
Any group of pooled funds under the same management	0	0	£5.0m per manager	Yes
Negotiable instruments held in a broker's nominee account	0	0	£2.0m per broker	Yes
Foreign countries	0	0	£3.0m per country	Yes
Registered providers and registered social landlords	0	0	£3.0m in total	Yes
Unsecured investments with building societies	0	0	£2.0m in total	Yes
Loans to unrated corporates	0	0	£2.0m in total	Yes
<b>Money Market Funds (MMF)</b>	<b>0</b>	<b>0</b>	<b>£10.0m in total*</b>	<b>Yes</b>
Real Estate Investment Trusts	0	0	£5.0m in total	Yes

\*The Investment Limits quoted in Table 8 are those adopted in the original Treasury Management Strategy. At its meeting on 29th October 2020, full Council resolved to:

- Increase the amount that the Council can invest in any single organisation, except the UK Government, from £3.0 million to £4.0 million; and

- Increase the MMF limit to £10 million *per fund*, with a maximum limit of 3 funds to be invested in at any one time. If operational requirements require the use of more funds, the S151 officer can authorise this in consultation with the Portfolio Holder for Finance and Economic Development, provided this is reported to the Chair of the Audit and Governance Committee, and a report is submitted to the next available meeting of the Audit and Governance Committee.

Table 8 shows that, during the first six months of 2020/21, the Investment Limit in any single organisation (except the UK Government) was breached – with peak investment occurring on 15th April 2020 – when a cash balance of £70.5 million was held with NatWest, the Council’s main bankers. This was a totally unprecedented event, driven by two (unrelated) factors. Thus:

- Closing Cash Balance 2019/20 – as reported to this Committee on 28th September 2020, the Council held an unusually high cash balance of £22.1 million on 31st March 2020, reflecting an increase in short-term borrowing and a reduction in short-term investments, partly due to Treasury Management advice (to carry higher balances in the light of the volatility and uncertainty caused by the Covid-19 pandemic). But also reflecting the assembling of funds in advance of an anticipated loan of £30.0 million to Qualis during April 2020; and
- Covid-19 Business Support Grants – the Council received £29.77 million from central Government on 1st April 2020, for distribution to local businesses as part of the Government’s Covid-19 Business Support Grants initiative. The funding was received at very short notice (and added to, by previously arranged short-term borrowing of £10.0 million).

Exceptionally high cash balances were experienced by a vast majority of local authorities during April 2020 as the Government distributed emergency support funding for Covid-19; as a consequence, there were no opportunities at the time to temporarily invest surplus cash with other local authorities (as everyone was looking to lend, rather than borrow). In addition, Epping Forest District Council was very quick to distribute Business Support Grants to local businesses, which meant that very high cash balances were needed to cover rapidly outgoing commitments.



## **Treasury Management Indicators**

The Council measures and manages its exposures to Treasury Management risks using the following indicators.

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

	<b>30/09/20 Actual</b>	<b>2020/21 Target</b>	<b>Complied?</b>
Portfolio average credit rating	A	A-	Yes

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

	<b>30/09/20 Actual</b>	<b>2020/21 Target</b>	<b>Complied?</b>
Total cash available within 3 months	£1.2 million	£3.0 million	No

It should be noted that the Council took out short-term borrowing of £10 million on 20th October 2020 from another local authority. At no time during the first six months of 2020/21 (or subsequently at the time of preparing this report), did the Council go overdrawn at the Bank.

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

<b>Interest rate risk indicator</b>	<b>30/09/20 Actual</b>	<b>2020/201 Limit</b>	<b>Complied?</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates (Borrowing)	£318,000	£318,000	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates (Investments)	£12,000	£100,000	Yes

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The table shows that Interest Rate Exposure on Borrowing and Investments were within limits. Interest Rate Exposure on Borrowing is an especially important measure, with net variable rate exposure of £306,000 (£318,000 minus £12,000) focused on Borrowing.

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

	30/09/20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0%	100%	0%	Yes
12 months and within 24 months	19.5%	100%	0%	Yes
24 months and within 5 years	0%	100%	0%	Yes
5 years and within 10 years	12.5%	100%	0%	Yes
10 years and within 15 years	0%	100%	0%	Yes
15 years and within 20 years	37.5%	100%	0%	Yes
20 years and within 25 years	26.5%	100%	0%	Yes
25 years and above	4%	100%	0%	Yes

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

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

	<b>2020/21 (April – Sept)</b>
Actual principal invested beyond year end	£0
Limit on principal invested beyond year end	£1.0 million
Complied?	Yes

**Other**

**IFRS 16:** CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

**Minimum Revenue Provision Statement 2020/21**

**DRAFT**

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as “Minimum Revenue Provision” (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government’s (MHCLG) Guidance on MRP (the MHCLG Guidance) updated in 2018.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement and recommends a range of options for calculating a prudent amount of MRP.

**MRP Policy**

No MRP is required to be charged for Housing Revenue Account (HRA) assets.

No MRP is required to be charged on any General Fund Capital Financing Requirement, which was in existence prior to the HRA Subsidy Reform exercise of 2012.

For General Fund capital expenditure incurred after the HRA Subsidy Reform exercise of 2012:

- MRP will be determined by charging the expenditure over the expected useful life of the asset, to a maximum of 50 years, on an annuity basis; and
- MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is financed from revenue with an option that part, or all, of the payment could be financed from capital receipts to repay debt.

MRP will commence in the financial year following the asset coming into operational use or after purchase.

**External Loans**

For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement.

**Capitalisation Directions**

For capitalisation directions on expenditure incurred after 1st April 2008 MRP will be made using the annuity method over 20 years.