

Tuesday, 17 January 2023

**AUDIT COMMITTEE**

A meeting of **Audit Committee** will be held on

**Wednesday, 25 January 2023**

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus,  
Torquay, TQ1 3DR

**Members of the Committee**

Councillor Loxton (Chairman)

Councillor Brooks

Councillor Johns

Councillor Douglas-Dunbar

Councillor Kennedy (Vice-Chair)

Councillor Hill

Councillor O'Dwyer

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**Together Torbay will thrive**

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**Governance Support, Town Hall, Castle Circus, Torquay, TQ1 3DR**

Email: [governance.support@torbay.gov.uk](mailto:governance.support@torbay.gov.uk) - [www.torbay.gov.uk](http://www.torbay.gov.uk)

# AUDIT COMMITTEE AGENDA

1. **Apologies**  
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.
2. **Minutes** (Pages 4 - 7)  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 7 November 2022.
3. **Declarations of interests**
  - (a) To receive declarations of non pecuniary interests in respect of items on this agenda  
**For reference:** Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.
  - (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda  
**For reference:** Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.  
  
(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)
4. **Urgent Items**  
To consider any other items that the Chairman decides are urgent.
5. **Internal Audit Areas Requiring Improvement - Follow Up Report** (Pages 8 - 17)  
To consider a report that sets out progress made by areas previously identified as 'improvements required'.
6. **Internal Audit Half Year Audit Report 2022-23** (Pages 18 - 48)  
To consider a report that provides an update to the agreed Internal Audit Plan and reviews the work undertaken to date in 2022/23.
7. **Treasury Management Strategy 2023/24 including adoption of the CIPFA Code of Practice: Treasury Management in the Public Services** (Pages 49 - 102)  
To consider a report that recommends to Council the adoption of the CIPFA Code of Practice: Treasury Management in the Public

Services and the approval of the Treasury Management Strategy 2023/24.

**8. Torbay Council Audit Progress Report and Sector Update** (Pages 103 - 114)  
To consider a report on the above.

**9. TDA Management Accounts** (Pages 115 - 142)  
To consider a paper on the TDA Management Accounts.

(Note: The Management Accounts for TDA are exempt as the public statutory accounts are not yet available.)

**10. Management Accounts - SWISCo** (Pages 143 - 174)  
To receive the SWISCo management accounts (exempt).

Please note the full statutory accounts for the financial year ending 31 March 2022 have been provided to assist Members to draw comparisons should they wish.

### **Meeting Attendance**

Please note that whilst the Council is no longer implementing Covid-19 secure arrangements attendees are encouraged to sit with space in between other people. Windows will be kept open to ensure good ventilation and therefore attendees are recommended to wear suitable clothing.

If you have symptoms, including runny nose, sore throat, fever, new continuous cough and loss of taste and smell please do not come to the meeting.

## **Minutes of the Audit Committee**

**7 November 2022**

**-: Present :-**

Councillors Brooks, Douglas-Dunbar, Johns, Kennedy (Vice-Chair) and O'Dwyer

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### **20. Apologies**

Apologies for absence were received from Councillors Hill and Loxton. In the absence of the Chairman, Councillor Loxton, the Vice-Chairwoman, Councillor Kennedy chaired the meeting.

### **21. Minutes**

The Minutes of the meeting of the Audit Committee held on 28 September 2022 were confirmed as a correct record and signed by the Vice-Chairwoman.

### **22. Quarter 2 Performance Report**

Members noted the Quarter 2 Performance Report and Quarter 2 Risk Report, Members were advised that the Quarter 2 Performance Report contained the summaries of progress, updates on projects and performance of key indicators used to deliver and track the priorities within the Community and Corporate Plan.

At the meeting Members were joined by the Director of Children's Services, the Divisional Director of Corporate Service and the Divisional Director of Planning, Housing and Climate Emergency and held a debate which focused on the indicators within their service areas.

The Director for Children's Services, Nancy Meehan provided an update on the pressure within Children's Services due to the number of residents in the hotel being used to accommodate asylum seekers presenting as unaccompanied children. When an individual presented as an unaccompanied child, the local authority had a duty to undertake a Merton Age Assessment, each assessment involved at least two social workers and other professionals, each assessment took around 35 hours to complete. Members were advised that as a consequence, children who were already within the service were being impacted.

Ms Meehan advised that upon an individual presenting as an unaccompanied child, the individual must be found alternative accommodation to the hotel. This was further complicated by the individual upon entry into the country claiming to be adults then presenting as an unaccompanied child upon arrival in Torbay. Therefore, normal accommodation routes such as foster families were not an option due to the need to safeguard other children. This added further pressure on staff and resources.

Members raised questions in relation to:

- The number of Merton Age Assessments completed, how many were underway and how many were outstanding;
- Whether medical or biological assessments could be undertaken;
- Whether assessments had to be undertaken face to face and what were considered to be suitable environments for the assessments;
- The emotional and physical toll the volume of assessments was having on staff;
- Staff caseloads;
- Who was responsible for the financial burden of the assessments;
- The number of children in receipt of Education, Health and Care Plans;

The Divisional Director Corporate Services provided an update in respect of the following projects:

- Customer Relationship Management Project;
- The IT system supporting Development Management in particular the elements regarding Land Registry and Section 106/Community Infrastructure Levy;
- Liquid Logic; and
- Power BI

Members raised questions in relation to the following:

- The complexity, timescale and likelihood to deliver the Customer Relationship Management Project for the 'go live' date in March 2023;
- The intended efficiencies as a result of the implementation of the Customer Relationship Management system; and
- Was the Liquid Logic project value for money and were there benefits in rolling the project out to Adult Services.

Members asked the Divisional Director of Corporate Services further questions regarding Complaint Performance data in particular the complaints being considered by the Local Government Ombudsman, and the backlog of complaints within departments.

The Vice-Chairwoman welcomed the Divisional Director Planning, Housing and Climate Emergency to the meeting and informed Members that in the absence of the Chairman of the Audit Committee she had raised concerns regarding the Local Plan consultation and timescales with Informal Cabinet. Members proceeded to ask the Divisional Director Planning, Housing and Climate Emergency questions in relation to the following:

- The climate change score in the risk report (currently 20) and whether it should be 25 as Members had concerns that the commitment of being net zero by 2030 was going to be met;
- That updates on the Local Cycling, Walking Infrastructure Partnership (LCWIP) be included in the climate change newsletter in order to brief/update members;
- Whether the risk score for the housing land supply should be higher than 16.

The Senior Performance and Risk Officer advised Members that a small number of Performance Indicator's had been updated since the report had been published for Audit Committee. PH04, number of sexual health STI treatment interventions and PH05, number of sexual health STI treatment follow ups were reported as being above target. PH06, number of sexual health (contraceptive) interventions remained on target. Members were advised that for Quarter 2, PH14, provision of IUD LARC in Primary Care (number of intrauterine device long-acting reversible contraceptive fittings (both contraceptive and non-contraceptive)) was below target.

To conclude the update, the Committee were advised that RECPI0 2, variance against Revenue Budget (projected), was showing an overspend as reported in the Revenue Budget Monitoring, considered by the Overview and Scrutiny Board.

### **23. Quarter 2 Risk Report**

This item was considered alongside the Quarter 2 Performance Report, see the minute above.

### **24. Proposed Auditor Appointment from 2023/24**

Members considered a report that informed them of the proposed appointment of the external auditor to the Council for the 2023/24 accounts and beyond as notified by the Public Sectors Audit Appointments (PSAA).

The Deputy Director of Finance, informed Members that under regulation 13 of the Appointing Persons Regulations, the PSAA must appoint an external auditor to each opted-in body having consulted on their proposal. The Council, in accordance with regulation 13 was informed of the outcome of the PSAA procurement to let audit contracts from 2023/24. Grant Thornton was successful in winning a contract in the procurement, and PSAA propose appointing them as the auditor of Torbay Council for five years from 2023/24. The appointment was currently being consulted upon.

In addition, PSAA have also indicated that bodies should anticipate an increase in the order of 150% on the total fees for 2022/23. PSAA will consult formally on the scale of fees for 2023/24 in Autumn 2023 and will publish confirmed scale of fees for 2023/24 for opted-in bodies on their website by 30 November 2023.

Resolved:

That the Director of Finance in consultation with the Chairman of the Audit Committee be requested to formally object to the proposed auditor appointment and proposed fee increase by midnight on 14 November 2022.

### **25. Exclusion of the Press and Public**

**(Note:** Prior to consideration of the item in Minute 26 the press and public were formally excluded from the meeting on the grounds that the item involved the likely disclosure of exempt information as defined in paragraph 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

**26. Planning, Housing and Climate Emergency - Service of the Future Project Update**

Members noted an update on the Planning, Housing and Climate Emergency – Service of the Future Project. The Divisional Director of Corporate Services and Divisional Director of Planning, Housing and Climate Emergency informed Members that initially progress had been slow due to the need to review the impact of historical interventions in order to understand what needed to change. Members were advised that there were ‘green shoots’ of improvement, however given the challenge and cultural change required officers did not anticipate concrete changes and improvements until the summer.

Chairman/woman

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## Internal Audit

# Areas Requiring Improvement - Follow Up Report

**Torbay Council**

*January 2023*

**OFFICIAL**





## **Devon Audit Partnership**

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Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid-Devon, South Hams & West Devon, Torridge and North Devon councils, along with Devon and Somerset Fire and Rescue Service. We aim to be recognised as a high-quality public-sector service provider.

We work with our partners by providing professional internal audit and assurance services that will assist them in meeting their challenges, managing their risks and achieving their goals.

In carrying out our work we are required to comply with the Public Sector Internal Audit Standards (PSIAS) along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [tony.d.rose@devon.gov.uk](mailto:tony.d.rose@devon.gov.uk).

## **Confidentiality and Disclosure Clause**

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This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

## **Introduction**

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The 2021/22 Annual Internal Audit outturn report was presented to the Audit Committee in May 2022. Appendix 1 of that report provided a summary of the audits undertaken during 2021/22 along with our assurance opinion.

Where a “Substantial” or “Reasonable” audit Assurance Opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified. Where an opinion of “Limited Assurance” or lower was provided then issues were identified during the audit process that required attention.

We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members have previously found it beneficial to receive a report on progress on the “Limited Assurance” areas highlighted in Appendix 1 to the 2021/22 annual report.

As part of adding value, Devon Audit Partnership has completed follow up reviews to provide updated assurance to Members. The results from this process are contained in this report at Appendix A.

## **Assurance Statement**

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Our assurance opinion remains as reported in our Annual Audit Report 2021/22. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should there be a lack of continued progress where work is ongoing to address individual management action plans.

It should be noted that there were a significant number of audits still at draft report stage in the Annual Report 2021/22 due in part to the ongoing impact of the pandemic. These have not been followed up due to timing of finalisation / receipt of the management action plan.

These will be considered for follow up in the 2023/24 follow up exercise.

## **Progress Impact Assessment**

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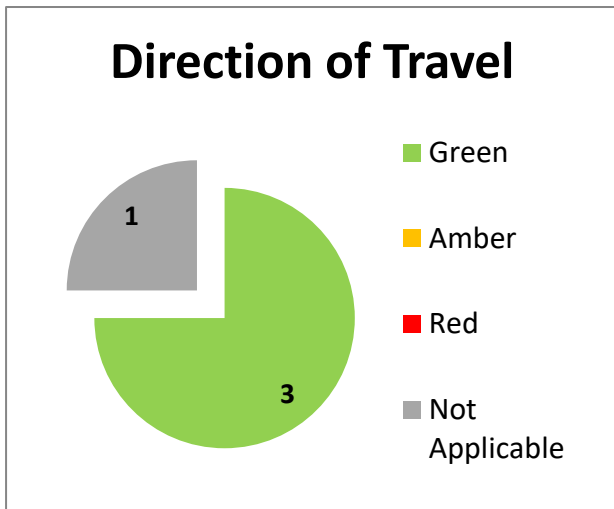
The progress made in some areas means the previously identified risks are being minimised or mitigated where appropriate. We recognise that in other areas progress remains ongoing, although acknowledge that appropriate plans are in place to address the associated risks.

This follow up activity was an opportunity to facilitate, review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management arrangements.

## **Progress**

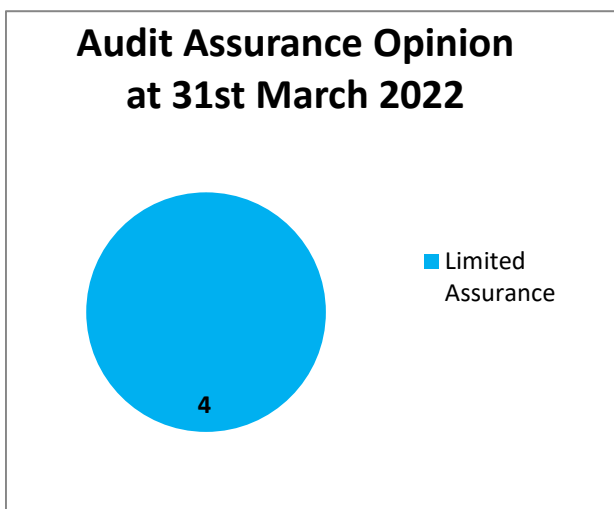
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Where progress has been made against the agreed action plans, this is shown in the ‘Direction of Travel’ chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.



### Direction of Travel Key

**Green** – Action plan implemented or being implemented within agreed timescales;  
**Amber** – Implementation of action plan not complete in all areas or overdue for key risks;  
**Red** – Implementation of action plan not complete and we are aware progress on key risks is not being made.



Although the audits previously followed up in 2021/22 are not subject to further formal audit follow up as part of this process, for continuity and the avoidance of doubt we have analysed the previous year's output to provide an indication of areas that may require further Management input. Please refer to table below.

Total audits still at Improvements Required / Limited Assurance or lower from 2021/22 annual follow up report		
Areas subject to follow up activity within 2022/23 planned audit work		Areas (potentially) requiring Management review of progress against previous audit recommendations
Key Financial Systems (annual audits)	2022/23 audits	
2  (Debtors and Corporate Debt; Council Tax and NNDR)	1  (Health & Safety)	<ul style="list-style-type: none"> <li>– Adoption – Client monitoring of RAA</li> <li>– Commissioning and Performance Monitoring by the Council of the TDA</li> <li>– Health &amp; Safety</li> </ul>

## **Internal Audit Coverage and Results**

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Overall, we can report that Management responses indicate that progress has been made in most areas, and this is shown in the direction of travel chart above and in Appendix A of this report. Where the opinion remains unchanged, we acknowledge that progress is being made.

It should be noted that in a number of instances we understand that action is being taken to address the issues identified. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations have been completed, but this is as expected. Some agreed actions have not been implemented for a variety of reasons including the need to prioritise resource in other directions.

Appendix A of this report sets out the audits at the end of 2021/22 which were in final report status and identified as 'Limited Assurance' or 'No Assurance'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'.

We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

## **Annual Governance Statement**

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The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2021/22 published in May 2022.

## **Process**

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For each service area where an overall audit opinion of "Limited Assurance" or "No Assurance" was provided at the end of 2021/22 we completed a follow up review.

The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority or "opportunity" we required written confirmation that the action had been enacted upon, or an update on the progress being made. For "medium" and "high" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work.


## Summary of Audit Follow and Findings 2022-23

### Risk Assessment Key


LARR – Local Authority Risk Register Score Impact x Likelihood = Total & Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available


### Direction of Travel - Key

**Green** – action plan implemented or being implemented within agreed timescales;  
**Amber** – implementation of action plan not complete in all areas/overdue for key risks;  
**Red** – implementation of action plan not complete and we are aware progress on key risks is not being made.

Children’s Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion – 31 March 2022	Updated Audit Assurance Opinion – 30 November 2022	Commentary and residual risk	
Special Guardianship Orders – Follow up	ANA - Medium	Limited Assurance	Limited Assurance	<p>It is pleasing to note the progress continues to be made in relation to review and update of the care planning pathways and support plans, quality assurance and sign off of special guardianship support plans at Head of Service level. Development and implementation of the SGO tracker should aid the review process to ensure deadlines are not missed and reviews are carried out in a timely manner.</p> <p>However, whilst the stated progress can be seen, we have not been able to verify these are consistently being implemented and adhered to and therefore are unable to uplift our assurance opinion at this time.</p> <p>The decision linked to the cost-of-living crisis not to undertake formal financial annual reviews carries the risk that some SG’s may receive incorrect financial support.</p>	

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion at 31 March 2022	Updated Audit Assurance Opinion at 30 November 2022	Commentary and residual risk	
SEN - Higher Needs	ANA – Medium	Limited Assurance	N/A	<p>Our follow up of audit recommendations and agreed actions confirmed that some positive progress had been made, however our scope of work differed from that of the Ofsted SEND Inspection in November 2021.</p> <p>The Ofsted Inspection has superceded our work and note that improvements made will be focussed on the Ofsted findings. Given this, we are not providing a revised opinion in relation to our work but have included mention in this report for completeness.</p>	N/A

CORPORATE SERVICES and FINANCIAL SERVICES					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion at 31 March 2022	Updated Audit Assurance Opinion at 30 November 2022	Commentary and residual risk	
ICT Information Governance (IG) and Data Quality (including Children's Services)	ANA – High	Limited Assurance	Reasonable Assurance	<p>We found that the majority of policies and guidance have been updated, and policies now due for review are intended to be completed by the end of 2022/23, along with further improvement of engagement with Children's Services.</p> <p>The Council's Information Asset Register was subject to review within the ICO Audit activity, however regular reviews should be established, including alignment of the registers risk framework to that of the Councils.</p> <p>The CS induction process has been reviewed to appropriately incorporate IG and Data Quality in alignment with the Corporate</p>	

				<p>process, with further work ongoing, for example agency staff recruitment and leaver processes. The launch of onboarding provides all new starters with a consistent set of policies and procedures to follow.</p> <p>It is understood that an inventory for moveable property within Children's Services has been developed and is being maintained, however, we have not been provided with evidence to confirm this and therefore cannot provide assurance regarding operational practice.</p> <p>The index / directory of physical records remains an issue. We understand that due to staffing changes this has not been actioned and it is understood that a new location for the records has been agreed and once relocation has taken place, details of the records will be uploaded to Liquid Logic.</p>	
<p>Cyber Governance</p> <p>Page 15</p>	<p>ANA – Client Request</p>	<p>Limited Assurance</p>	<p>Reasonable Assurance</p>	<p>It is pleasing to note that Cyber defences continue to develop. In terms of the issues previously identified, the majority are complete or substantially in progress. Cyber defences are a continuously evolving area, with new risks constantly emerging, and as such it is vital that appropriate investment continues. It is also pleasing to note the investment in CISSP qualification, and acknowledgement of inclusion of the area within the risk register and supporting governance activities.</p> <p>We note that training is intended to be established by the end of 2022/23, and as such, although a Cyber briefing to SLT has been undertaken the knowledge gap at Senior Officer and Member levels remains. We acknowledge the investment into Cyber defences but note that capacity and resource is likely to remain an issue given the level of cyber defence project work and maintaining business as usual. Work is in progress in relation to strengthening the Business and Civil continuity arrangements and associated disaster recovery provision, and the Council's Emergency Planning team have been advised to raise cyber as a priority with the Local Resilience Forum.</p>	

## Definitions of Audit Assurance Opinion Levels

Assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.
Opportunity	A recommendation to drive operational improvement which may enable efficiency savings to be realised, capacity to be created, support opportunity for commercialisation / income generation or improve customer experience. These recommendations do not feed into the assurance control environment.



## Confidentiality under the National Protective Marking Scheme

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Marking	Definitions
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Official: Sensitive	A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier, but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL-SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

Internal Audit

# Half Year Audit Report 2022-23

Torbay Council  
Audit Committee

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January 2023



Tony Rose  
Head of Audit Partnership

Auditing for achievement

Agenda Item 6

CUSTOMER  
SERVICE  
EXCELLENCE



CSE



## Introduction

The Audit Committee, under its Terms of Reference contained in Torbay Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2022/23 was presented and approved by the Audit Committee in March 2022. The following report and appendices set out the background to audit service provision; any updates to the agreed plan, a review of work undertaken to date in 2022/23 and provides our current opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This progress report provides a summary of work completed in the first six months of the year that will help to inform that annual assurance opinion.

### Expectations of the Audit Committee from this six-month progress report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- changes to the plan and the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- performance and customer satisfaction on audit delivery.

**Tony Rose**  
**Head of Devon Audit Partnership**

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# Opinion Statement

**Overall, and based on work performed to date during 2022/23, our experience from previous years, and the outcome of the Annual Follow Up exercise as separately reported, the Head of Internal Audit's Opinion is one of 'Reasonable Assurance' on the adequacy and effectiveness of much of the Authority's internal control framework.**

**However, due to a lack of audit work in the first half of the year, we are unable to reconsider the assurance opinion for Children's Services. As such Children's Services (excluding Education) remains as 'Limited Assurance'. In the case of both the Public Health, and Adults Directorates, our assurance opinion is based on work undertaken in 2019/20 and prior years. Our audit planning process is risk based and as such our report will inevitably focus upon higher risk areas.**

*This opinion statement will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement see appendix 4. Assurance over arrangement for adult social care is mainly provided by colleagues at Audit South West, the Internal Audit provider for Health Services, who provides a separate letter of assurance (attached at Appendix 8).*

The Authority's internal audit plan for 2022/23 includes specific assurance, risk, governance, and value-added reviews which, together with prior years audit work, provide a framework and background within which we can assess the Authority's control environment.

The reviews in 2022/23 to date have informed the Head of Internal Audit's Opinion. If significant weaknesses have been identified in specific areas, these will need to be considered by the Authority in preparing its Annual Governance Statement as part of the 2022/23 Statement of Accounts.

In carrying out reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up.

## This statement of opinion is underpinned by:

### Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to establish and monitor the achievement of the Council's objectives; facilitate policy and decision making; ensure economical, effective, and efficient use of resources, compliance with established policy, procedure, law, and regulation; and safeguard the Council's assets and interests from losses of all kinds. Core financial and administrative systems were reviewed by Internal Audit.

The Council's overall internal control framework is considered to have operated effectively during the year. Where internal audit work has highlighted instances of non or part compliance, none are understood to have had a material impact on the Authority's affairs. However, the opinion provided must be considered in light of the ongoing impact of the Council's recovery from Covid-19.

Covid-19 responses resulted in a significant level of challenge to the Council and new schemes have put pressure on the expected control environment. In respect of this report, it has not been possible to fully quantify the additional risk that may have arisen from such emergency and associated measures or fully determine the overall impact on the framework of governance, risk management and control.

### Risk Management

We are aware that Risk Management continues to be developed within the Performance and Risk Framework (PRF) and that the strategic risks have been recently reset.

The audit of this area is planned for 2023-24 to allow for embedding of new practices. However, we maintain involvement through DAP's Risk Management arm when support is requested. PRF continues to be reported to Senior Leadership Team (SLT) and Audit Committee. Until fully embedded this area remains a risk. The ongoing Covid-19 response continues to present financial and service risks.

### Governance Arrangements

Arrangements are generally reviewed within our Project Assurance provision. As described in the Business Case, there is opportunity to further broaden a formal Portfolio Management.

The Information Governance Steering Group provides overarching governance in relation to information security, cyber governance, management, and compliance,

Finance, Ethics and Probity (FEP) maintain governance over issues within their remit.

### Performance Management

As detailed under Risk Management, the Performance Framework remains subject to ongoing development, with monitoring arrangements continuing, and includes outcome mapping and business planning. Until embedded this area remains a risk.

Irregularity and whistleblowing complaints, alongside the work of the Corporate Fraud Officer are also reported to Audit Committee.

Budget performance is monitored by SLT and full Council. Children's Services Sufficiency Strategy and Medium-Term Financial Plan (MTFP) are monitored by SLT.

<b>Significant Assurance</b>	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.	<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
<b>Reasonable Assurance</b>	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.	<b>No Assurance</b>	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

## Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can.

We believe internal audit activity can add value to the organisation and its stakeholders by:

- providing objective and relevant assurance,
- contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

Senior Management has found our engagement, support as a "trusted advisor" effective and constructive in these significantly changing times.

Our work has identified specific added value benefits in key areas and in mitigating key risks. Notable benefits have been reported in the following areas:

## Corporate Services and Financial Services

- ongoing engagement in Business Improvement and Change programmes and projects. We also continue to provide relevant information and practices from Local Government articles and guidance;
- continued attendance at and support to the Council's Information Governance Steering Group
- support to the Council's Data Protection Officer in the provision of Freedom of Information (FOI) and Subject Access Request (SAR) data;
- advice prior to implementation in relation to the expected controls to support the Housing Support Fund scheme;
- identification of a significant overpayment of Housing Support Fund;
- completion of additional housing Benefits subsidy testing related to the prior year;
- ICT horizon scanning, including identification of available grant monies for Cyber defences; Cyber-attack simulation tools; and IE11 retirement considerations;
- Drafting of a Business Case to support a formal Portfolio Management role across the Council;
- Support to a Risk Management presentation and workshop with SLT and the Risk Manager.

## Place

- annual Port Marine Safety Code compliance audit;
- in addition to the planned grant work, inclusion of the Local Growth Fund Grant (Torquay Gateway, EPIC and Torbay Business Centre) certifications;
- continued flexibility around completion of the prior year Grants - Home to school and College, Travel Demand Management and Bus Subsidy.

## Children's Services

- ongoing engagement with the Liquid Logic project post go-live;
- quarterly certification of Troubled Families grants.

## Covid-19 Response

- changes to the plan to accommodate grant certification

## Schools

- The SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 2021/22 was submitted to the Department for Education and work is underway to complete the statement for 2022/23.
- Several internal audit reviews have taken place in the autumn term 2022 to date and it is hoped to complete as many of the remaining planned audits as possible by the end of the audit year.

## Progress Against Plan

This report compares the work carried out with the work that was planned through risk assessment, presents a summary of the audit work undertaken, includes an opinion on the adequacy and effectiveness of the Authority's internal control environment and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

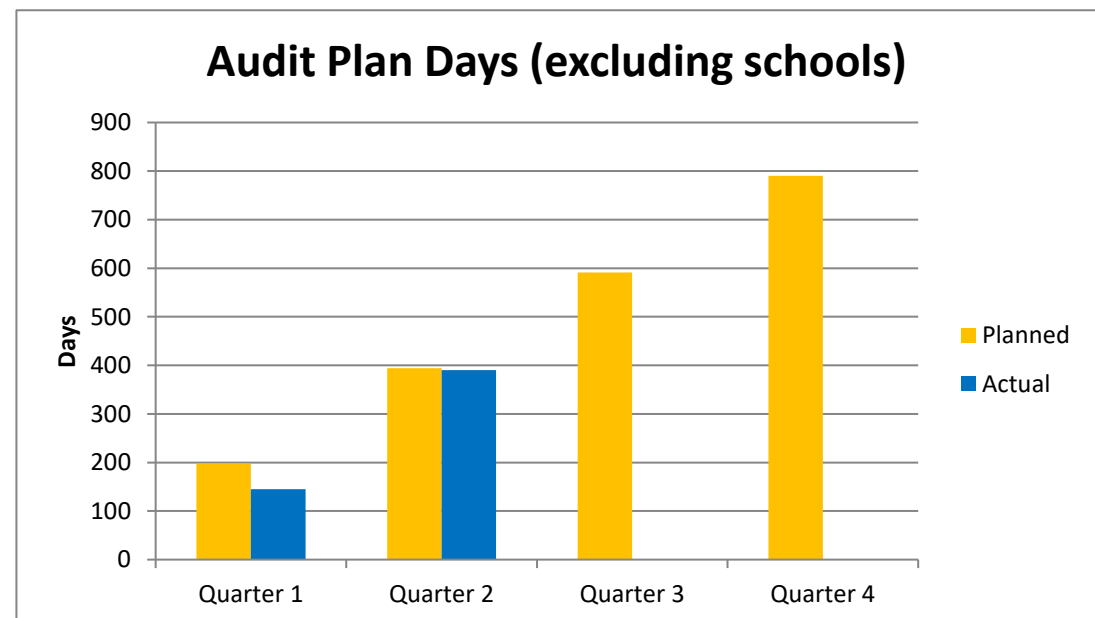
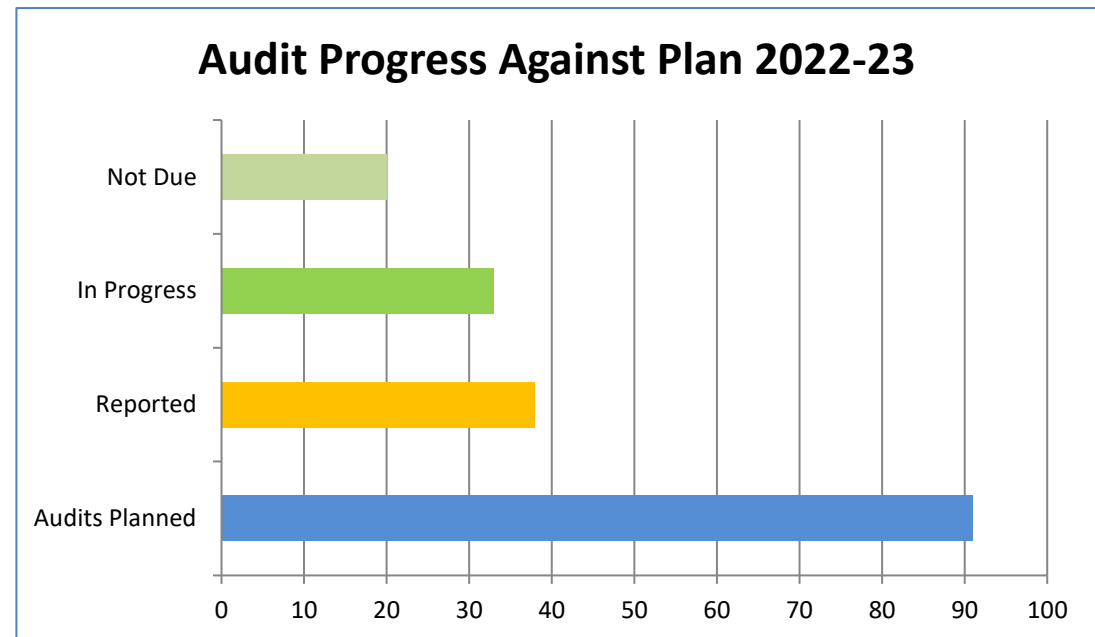
- a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need,
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements, and
- a statement on the effectiveness of the system of internal control in meeting the Council's objectives.

There has remained a need to be agile in delivery as departmental capacity to support Audit activity continues to be affected by Covid-19 and other departmental higher priorities.

Some of our work supports projects and hence completion will be in accordance with project timescales.

The bar charts right show the status of audit progress against plan and audit days delivered against target planned.

The charts demonstrate that progress is largely in line with expectations, except in relation to completion of audit activity to report stage which has been impacted by departmental availability. For example, this is demonstrated in relation to Key Financial Systems, Covid-19 Response work and Grant Certification where prior year work is being reported in the current year.





## Summary audit results

### Place

As a result of our audit work completed so far during the 2022/23 year and in previous years, our opinion remains as one of '**Reasonable Assurance**'.

We have undertaken two audits in Tor Bay Harbour Authority with positive engagement and outcomes with further work ongoing in relation to ICT system administration at the harbour.

Whilst our assurance opinions remain as 'Limited Assurance' in relation to Public Toilets and Parking, it is pleasing to note the progression made.

The audits of Asset Management Strategy and Technology Forge System are ongoing, and further audits are planned in the second half of the year.

There are several Grant Certification audits where work is ongoing, but completion reliant on departmental capacity to support the work.

The Director of Place has overall responsibility for commissioning SWISCo services on behalf of Torbay Council. Key SWISCo Services functions and risks are audited by the Devon Audit Partnership, who provide an annual assurance report to the SWISCo Board.

### Public Health

Based on areas audited in previous years, our opinion is one of '**Reasonable Assurance**' on the adequacy and effectiveness of the internal control framework.

Planned audit activity for this Directorate was deferred in relation to the 2021-22 year. As there was only one audit planned for the 2021-22 year and the 2020-21 audit deferred, our assurance opinion remains based on 2019-20 and prior year audit activity.

This deferred audit is now underway, and we will report our findings in the annual report including any update to our overall opinion for Public Health.

### Corporate Services and Financial Services

As a result of our audit work completed so far during the 2022/23 year and in previous years, our opinion remains as one of '**Reasonable Assurance**'.

Based on indications from previous and on-going work, we can report that material systems controls have either been maintained, or improvements are being made to address previously identified weaknesses. Whilst some weaknesses exist, management are aware of these issues, and have either accepted the related risk, or are taking action.

Programmes and Projects within the Business Improvement and Change Portfolio continue to progress, supported by a dedicated team. Our Project Assurance role has identified some issues that have been accepted and taken forward, primarily Council Redesign and Children's Services Liquid Logic.

Within Council Redesign we are aware that each service area is being subject to process reviews, and we are currently awaiting formal engagement in relation to any potential changes to the control framework. Given the scale and complexity of the projects and associated workstreams, in our opinion the resource and associated capacity continues to present a significant risk to programme and project success.

We remain concerned regarding the Council's capacity within the IG Team to comply with the statutory deadlines associated with Freedom of Information and Subject Access Requests.

The same team manages Corporate Complaints and the audit identified that response times have declined further indicating capacity issues.

The public sector is facing significant risks in relation to malicious / cyber-attack events, and we have an audit planned in the second half of the year to examine this area along with other ICT and IG functions. We note that the Council has invested in CISSP (Certified Information Systems Security Professional) certification for the IT Networks Lead and are aware of the significant cyber defence work that is currently ongoing. We have undertaken a follow of our previous Cyber Governance work, the outcome of which is reported separately.

We note that the Service Level Agreement with the Coroner Service remains in draft many years after the combined coronial area was established.

Although formal audit of Performance and Risk Management has been deferred due to ongoing development, we have supported SLT and the Risk Manager in redefining the Council's strategic risks.

## Children's Services

Our assurance opinion at the end of 2021/22 was one of '**Limited Assurance**' although we acknowledged a positive direction of travel as previously reported by Government appointed bodies for regulatory inspections as directed by the Education and Inspections Act 2006 legislation on behalf of the Secretary of State.

Whilst other higher priority activity within Children's Services has necessitated changes to the plan as detailed in Appendix 1, we have ongoing and planned work in the coming months to enable us to provide an updated assurance opinion at the end of the financial year.

We have undertaken a follow up exercise of two audits within Children's Services, the outcome of which are reported separately.

In addition, we have certified two troubled families claims.

The project to address post implementation issues regarding the new Liquid Logic system continues, effectively supported by Better Gov.

## Covid-19 Response

Prior year audit reports have now been agreed and issued in final. This year's plan includes review of the Household Support Fund, Omicron Grants, CTAX Rebate and Covid Additional Relief Fund, and was extended to include certification of various Covid-19 related grants.

As detailed in Appendix 1, where our work is complete, individual assurance opinions were mainly 'Limited Assurance', and we have provided recommendations to support improvement and strengthening of the associated control frameworks going forward.

## Adult Services including Community and Customer Services

The key Adult Services functions and risks are audited by the NHS Trust Provider, and wider assurance is provided by Health audit colleagues (Audit South West) who provide a separate letter of assurance.

Based on areas we audited in previous years, our opinion is one of '**Reasonable Assurance**' on the adequacy and effectiveness of the internal control framework.

All audits for this Directorate area were deferred in relation to the 2021-22 year, as was the case for 2020-21 year. As such our assurance opinion is based on 2019-20 and prior years.

These deferred audits are now underway or planned for the second half of the year, and we will report our findings in the annual report including any update to our overall opinion for Adult Services.

## Schools

Arrangements are in place to carry out the outstanding audit reviews in this year's plan over the coming months.

The Schools Financial Value Standard is now an established tool for maintained schools and are required to annually submit their self-assessment to their local authority no later than 31<sup>st</sup> March. Schools are reminded of the need to complete an annual submission during audits and through other means of communication.



## Irregularities Prevention and Detection

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Devon Audit Partnership (DAP) liaise with the Corporate Fraud Officer as required; the key outcomes of this role are the identification and investigation of external frauds.

Recent assessments state that there is an epidemic of fraud cases. Fraud now account for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. Given this landscape, it is important for councils to have effective measures to reduce the risk and impact of fraud. Management is aware that they can refer any suspected issues to the Corporate Fraud Officer, Internal Audit or the Finance, Ethics & Probity Group.

The Cabinet Office now run the national data matching exercise (National Fraud Initiative – NFI) every two years. Most data matching for this involves the investigation of potential external fraud committed against the Authority, i.e., individuals or bodies external to the Council. NFI activity on behalf of the Council is now undertaken by the Corporate Fraud Officer.

DAP has continued to undertake daily monitoring and management the Council's Whistleblowing Inbox. We have provision to interrogate the Council's email archive system to support investigations, FOI's, and SAR's. Periodic fraud bulletins are also produced and published on DAP's website.

**Irregularities** – During the first six months of 2022/23, Internal Audit have carried out, or assisted in 6 new irregularity investigations. Analysis of the types of investigation and the number undertaken, and as compared with the total investigations for previous years shows the following:

Issue	22/23 Number Half Year	21/22 Number Whole Year	20/21 Number Whole Year	19/20 Number Whole Year
Poor Procedures	3	2	0	4
Employee / Member Conduct	0	7	9	9
Financial Irregularities	0	2	4	1
Misappropriation of Income	0	0	0	0
IT Misuse	1	1	0	0
Theft	0	0	0	0
Tenders & Contracts	0	2	2	1
Support to IG and HR Investigations	2	4	N/A	N/A
<b>Total</b>	<b>6</b>	<b>18</b>	<b>15</b>	<b>15</b>

### Summary details as follows: -

Some irregularity investigations are as a result of allegations made by whistle blowers. In addition, we have supported Information Governance and Human Resources with the provision of emails in relation to their investigations.

### Freedom of Information / Subject Access Requests and Referrals made under the Unacceptable Behaviour Policy: -

We have been asked to assist with two requests under Freedom of Information and Data Protection requirements or the Unacceptable Behaviour Policy during the first six months of 2022-23.

## Appendix 1 – Summary of audit reports and findings for 2022/23

### Risk Assessment Key

LARR – Local Authority Risk Register Score Impact x Likelihood = Total & Level

ANA - Audit Needs Assessment risk level as agreed with Client Senior


Management


Client Request – additional audit at request of Client Senior Management; no risk

assessment information available

### Direction of Travel Assurance Key

 - action plan agreed with client for delivery over appropriate timescales & is progressing;




 - action plan agreed and is being progressed though some actions are outside of agreed timescales or have stalled

 - action plan not fully agreed, or we are aware progress has stalled or yet to start;  
\* report recently issued; assurance progress is of managers feedback at debrief meeting.




## CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
<b>Business Improvement and Change and Project Consultancy</b>			
Business Improvement and Change Programme (ANA – Critical) Page 26	Status: Ongoing  Added Value	<p>Our role remains one of primarily Project Assurance related to projects and programmes within the Business improvement and change portfolio of work. In addition, where required, we also continue to provide the Project Audit role, advising on control framework aspects of changes. The timing of our work is dependent on and linked to associated programme and project timescales.</p> <p>The project assurance role has primarily been provided through attendance at and participation at respective Board meetings and individual project assurance meetings with relevant Project Managers / Leads.</p> <p>Our focus continues to be in relation to two key Business Improvement and Change Programmes and Projects, as follows:</p> <ul style="list-style-type: none"> <li>Liquid Logic Post System Implementation – within the Children’s Services IT System Board;</li> <li>Council Redesign Programme – attendance at and participation in Council Redesign Board along with the ongoing overview of sub-projects, including CRM and Open Portal.</li> </ul> <p>Linked to these projects we have made recommendations around aspects such as project contingency, cost benefit analysis, evidenced decision making, procurement, and standard agenda items.</p> <p>As stated previously, our key concern remains as project capacity in relation to the ability of project teams to deliver outcomes in addition to maintaining business as usual in what continues to be challenging times. Following our previous recommendations regarding formal Portfolio Management, we provided operational support by drafting a Business Case to support a formal Portfolio Management role, that would provide a framework within which Council programme and project resource could be more effectively understood and managed.</p> <p>We continue to review information/articles from Local Government and other relevant publications identifying projects and programmes that may be of interest to Torbay Council.</p>	N/A




## CORPORATE SERVICES and FINANCIAL SERVICES

CORPORATE SERVICES and FINANCIAL SERVICES			
Risk Area / Audit Entity		Audit Report	
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>ICT and IG Audit</b>			
Information Governance Steering Group (including GDPR - trusted advisor) (ANA – High)	Status: Ongoing  Added Value	<p>Due to capacity within the IG Team, formal steering group meetings have been limited, however where required we have continued to provide input to and active participation in the Council's Information Governance Steering Group (IGSG). Part of our role continues to be horizon scanning for emerging issues that we share within the group or directly with specific departments. Recent examples include availability of Government grant monies for Cyber defences; retirement of Internet Explorer 11; and attack simulation tools to support user cyber-attack training and awareness.</p> <p>The group provides a framework around review of emerging information security matters and cyber risks. It was pleasing to note the Cyber briefing by the Head of ICT and the ongoing Cyber and related IT staff communication; and the ongoing development of Cyber defences utilising the Government grant monies.</p> <p>Concerns remain regarding the Information Governance Team's capacity to comply with statutory timescales of Freedom of information requests and Subject Access Requests.</p>	N/A
<p>The following audit is currently in progress:</p> <ul style="list-style-type: none"> <li>• ICT KFS (including Continuity and Disaster Recovery arrangements for key systems) (ANA – High)</li> </ul>		<p>The following audits are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> <li>• Cyber Essentials (ANA – High)</li> <li>• Change Management (ANA – High)</li> <li>• Incident and Problem Management (ANA – High)</li> <li>• Information Governance – Data Quality and Records Management (ANA – High)</li> </ul>	
<b>Key Financial Systems 2021-22 completed in the 2022-23 year</b>			
Treasury Management (ANA – Medium)	Status: Final  Substantial Assurance	Assurance was reported in last year's annual report; please refer to that report for details.	
IBS Open system Administration (follow up) (ANA – High)	Status: Final  Reasonable Assurance	Assurance was reported in last year's annual report; please refer to that report for details.	
General Ledger & Bank Reconciliation (follow up) (ANA – Medium)	Status: Final  Reasonable Assurance	<p>Limited progress had been made this year in relation to implementing prior year recommendations, so the majority still stand. We note that this includes two areas where management have accepted the risk, and this has been the case for a number of years.</p> <p>In terms of system changes, for some areas we have been informed that there were no such changes, so further work was not required. For others, we have been unable to obtain a response to our request for information, so cannot provide any up-to-date information or related assurance in this regard.</p>	





**CORPORATE SERVICES and FINANCIAL SERVICES**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Creditors & POP (ANA – High)	Status: Final  Reasonable Assurance	<p>This year's audit has followed a sample testing approach, and issues were identified in relation to most areas within the creditors system. We note however that none of the issues are significant enough to warrant a change in this year's opinion statement, which remains as 'Reasonable Assurance'.</p> <p>In some instances, the issues raised were simply due to not being able to obtain sufficient evidence to be able to provide assurance that the control environment normally in place had been operating throughout the year, rather than having found evidence that procedures were not being followed.</p> <p>As in previous years, our main concern is in relation to the authorisation process for manual payments, whereby only payments over £5k are checked for appropriate authorisation before being processed. We understand a number of system-based solutions are available to mitigate this risk, but that delays caused by Covid-19 have prevented resolution as yet.</p>	
Payroll (ANA – High)	Status: Final  Reasonable Assurance	<p>This year's audit has followed a walkthrough approach and we can confirm that in most areas, there is still a robust control environment in place. We have, however been unable to obtain information in relation to parameter changes, so cannot provide assurance that these were checked and reviewed before being implemented.</p> <p>A number of small issues were found in relation to the appropriateness of some amendments that are being made to the system, for example an authoriser entering data incorrectly, an inappropriate amendment being authorised, and a temporary amendment not being reviewed in terms of its ongoing appropriateness.</p> <p>In addition, we have been unable to establish whether progress has been made in terms of implementing prior year recommendations. A number of these have been outstanding for a few years now, so it would be good to see these implemented soon.</p>	
Debtors and Corporate Debt (ANA – High)	Status: Final  Limited Assurance	<p>As has been the case over the last few years, there has been little progress in terms of implementing prior year recommendations. With the impact of Covid-19 now lessening, it would be good to see some of these long-standing issues resolved, particularly in relation to the monitoring and reporting of debt at an overall level.</p> <p>Other issues are mainly prevalent in relation to Corporate Debt, and we understand that current staff pressures are preventing improvements from being made in this area. Specific risks remain in terms of monitoring recovery suppression and adherence to special payment arrangements.</p> <p>We also found issues in relation to monitoring performance of external debt collectors, and in relation to write-offs and the adherence to Financial Regulations. These were equally applicable to both Sundry and Corporate Debt.</p>	

**CORPORATE SERVICES and FINANCIAL SERVICES**



Audit Report			
Risk Area / Audit Entity	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Income Collection (ANA – Medium)	Status: Final  Reasonable Assurance	This year's sample testing audit found that, in the main, the controls in place across the Department to ensure significant risks are mitigated, have been operating throughout the year.  Access to the system is not so well controlled, and we have raised a number of issues in relation to both new, and current users, including the wide-ranging access of a number of officers who have both system administration and operational access. Although common in many small departments due to operational necessity, these officers include IT support staff, who are unlikely to require operational access.	
Benefits and Council Tax Support Scheme (follow up) (ANA – High)	Status: Final  Reasonable Assurance	<b>2019-20 Follow Up</b> We are pleased to report that the majority of recommendations made have now been implemented. Where these remain outstanding, either alternative solutions have been devised, or management continue to accept the related risk. We note that the majority of recommendations relate to improving the quality and accuracy of self-employed earnings assessments. Since the audit was undertaken two years of subsidy testing has taken place, and it is pleasing to note that no additional issues in relation to the assessment of self-employed earnings have been identified. Although our overall opinion remains 'Reasonable Assurance', we have updated our level of assurance in relation to risk 1 from 'Improvements Required' to 'Reasonable Assurance'. <b>2020-21 Follow Up</b> We are pleased to report that action is being taken to address the issues identified within last year's report. Additional training has been undertaken in relation to overpayment classification, and there is evidence of additional QC checking taking place. Despite the progress made, we are unable to revise our overall opinion due to the very limited scope of the original audit and therefore the follow up, as this would not be indicative of the Department as a whole. Additional earnings training was undertaken in February 2021 following the outcome of the 2019-20 subsidy testing. Although more recent training has not been undertaken in this area, we note that the results of the 2020-21 subsidy audit have yet to be finalised. We will follow this up as part of the 2022-23 benefits audit	
Council Tax and National Non – Domestic Rates (ANA – Medium)	Status: Final  Limited Assurance	The teams have faced increased pressures and workloads due to Covid-19 and have needed to adapt working practices to ensure a continuation of service whilst also processing various Covid related grants and discounts. These additional pressures are likely to be a contributing factor that have prevented the implementation of some outstanding audit recommendations. There remains therefore several areas where further improvements are required, examples being: <ul style="list-style-type: none"> <li>• Update and review of procedures;</li> <li>• Development and implementation of performance indicators;</li> <li>• Management information demonstrating review of discount/relief reviews;</li> <li>• Ensuring 'stop recovery' is time limited;</li> <li>• Review and clearance of accounts in credit;</li> <li>• Independent checks of refunds, including bank account details.</li> </ul>	

**CORPORATE SERVICES and FINANCIAL SERVICES**



Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
<b>Key Financial Systems 2022-23</b>			
FIMS Sys Admin (follow up audit) (ANA – High)	Status: Final Reasonable Assurance	Limited progress had been made this year in relation to implementing the very few prior year recommendations, so the majority still stand. We note that this includes one area where management have accepted the risk, and this has been the case for a number of years. In terms of system changes, we have been informed that there were no such changes, so further work was not required.	
Asset Register (follow up audit) (ANA – Medium)	Status: Final Substantial Assurance	It is pleasing to report that the three recommendations made last year have now been fully implemented, and we have made no further recommendations. We understand that there have been no changes to the systems and working practices since the last audit except in response to audit recommendations, and the implementation of a new RAM reporting tool. We understand that the new reporting tool does the same functions as the previous reporting tool; we will examine this in more detail as required in the 2023-24 audit.	
Treasury Management (follow up audit) (ANA – Medium)	Status: Final Substantial Assurance	Limited progress had been made this year in relation to implementing the few prior year recommendations, so the majority still stand. We note that this includes one area where management have accepted the risk, and this has been the case for a number of years, another area which is not yet due to be implemented and an opportunity recommendation. The remaining recommendations are largely in progress. In terms of system changes, we have been informed that there were no such changes, so further work was not required.	
Housing Benefits Subsidy (additional testing for the prior year subsidy claim) (ANA – Client Request)	Status: Complete Added Value	Testing comprised a review of a sample of forty overpayments from cell 114 (eligible overpayments). Of those sampled three were deemed to be 'fails'. In one instance this was due to the overpayment having been incorrectly classified. In two instances this was due to the benefit calculation having been revised incorrectly. We note that in these two instances, our findings were in dispute at the time they were passed over to Grant Thornton, however we have not yet received feedback on whether the dispute was upheld.	N/A
The following audits are currently in progress:		The following audits are not due to commence until the second half of the year:	
<ul style="list-style-type: none"> <li>• IBS Sys Admin (ANA – High)</li> <li>• Council Tax and Non-Domestic Rates (ANA – Medium)</li> <li>• Benefits and CTAX Support Scheme (ANA – High)</li> <li>• Housing Benefits Subsidy (current year claim) (ANA – Client Request)</li> </ul>		<ul style="list-style-type: none"> <li>• Payroll (ANA – High)</li> <li>• Income Collection (follow up audit) (ANA – Medium)</li> <li>• Debtors and Corporate Debt (ANA – High)</li> <li>• Creditors &amp; Electronic Ordering (POP) (ANA – High)</li> <li>• General Ledger (Main Accounting System) and Bank Reconciliation (ANA – Medium)</li> </ul>	
<b>Other</b>			
Apprenticeship Levy (ANA – client request)	Status: Final Limited Assurance	Assurance was reported in last year's annual report; please refer to that report for details.	



## CORPORATE SERVICES and FINANCIAL SERVICES

Risk Area / Audit Entity	Audit Report		Direction of Travel Assurance
	Assurance opinion	Residual Risk / Audit Comment	
Corporate Complaint System (ANA – Medium)	Status: Final  Reasonable Assurance	<p>Corporate Complaints is supported through local procedures which are managed by the Information Governance Team. Our review process focused on compliance with these local procedures, guidance from the Local Government and Social Care Ombudsman and how the Corporate Complaints system is configured to support Torbay Council's handling of complaints.</p> <p>Based on the quarter 4 performance report published to the audit committee on the 11th of May 2022 the number of complaints received in the last financial year has increased with only 49% being dealt with within the timescale. From our sample, all complaints had the supporting evidence which demonstrated compliance with the complaints procedure's initial assessment and investigation. There is, however, a downward trend in respect to response times exceeding 20 working days or 30 working days where an extension was permitted. We also noted an increase in cases being referred to the Ombudsman and an increase in cases being upheld by the Ombudsman. We have made some recommendations to strengthen the procedures surrounding the corporate complaints system and to support improvement in performance.</p> <p>We are confident that Torbay Council have an effective IT system in place to deliver Corporate Complaints. iCasework is linked to active directory along with user access requests managed by the Information Governance team, as such we are confident unauthorised access to the system is a relatively low risk. We have identified some areas which require further input with a focus on system administration procedures to include user access, leavers processes, training, and data protection.</p>	
Coroner (agreement monitoring)  (ANA-Medium)	Status: Draft  Limited Assurance	<p>We understand that both the Coroners Service and NHS support services have experienced a significant impact as a result of the pandemic and as such progression and finalisation of the draft SLA for the combined coronial area is yet to be fully agreed and signed by all parties. We have been advised that parties are working to the spirit of the SLA, however given the nature of the service and the associated charging mechanisms in place, it is vital that the draft SLA and any supporting contracts are reviewed, updated, and agreed by all parties.</p> <p>Included within the draft SLA is the associated charging schedule, however, although invoicing and payments are up to date, the charging is one aspect of the draft SLA that requires agreement. Our findings would support the need for further clarity and additional charging aspects being included in the SLA to ensure all charges applied by Plymouth City Council and the method by which they apply them are clear, fair, and accurate</p>	
The following audits are currently in progress: <ul style="list-style-type: none"> <li>Legal Services (cross Council use of Legal Advice) (ANA – Medium)</li> </ul>		The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>Capital Programme (focussed on Town Deal and Future High Streets) (ANA – Medium)</li> <li>Risk Management - Assurance Mapping (ANA – Medium) Consultancy</li> </ul>	

**COVID-19 RESPONSE**

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Business Grants - Post Award Assurance  Discretionary Business Grants - Post Award Assurance  Local Additional Restrictions Support Grants  Local Restrictions Support Grants (Closed) and Closed Business Lockdown Payments  Local Restrictions Support Grants (Open)  Local Restrictions Support Grants (Sector)  Christmas Support Payments for Wet led Pubs  Business Restart Grants	Status: Final  Limited Assurance	<p>Assurance was reported in last year's annual report; please refer to that report for full summaries of findings for individual audits.</p> <p>For information, in response to COVID-19, the Government provided support for businesses who suffered financial hardship due to local and national restrictions. There were several schemes under which grants were being made available to such businesses, depending on the specific restrictions that were in place over certain time periods</p> <p>The audits of the Covid-19 Response grant schemes were at client request to address the associated emerging risks with the audit plan being revised in-year to accommodate this requirement which spanned the 2020-21 and 2021-22 years.</p> <p>Management action plans are in place to address the findings and recommendations made in relation to specific claims and where lessons can be learnt for any future similar schemes. We note that reporting to government was addressed post the audits due to delays in receipt of templates from the government.</p> <p>We acknowledge the impact of the number of schemes, the speed of implementation required by the government, delays in scheme information from the government, the volume of applications and the known capacity issues on the Council's ability to implement and operate the required framework in addition to business as usual and during the pandemic.</p> <p>We raised issues with the design of the processing frameworks established in relation to the control environment and consistency with the government scheme requirements. These concerns have been noted by management and will be considered for any future similar grant schemes.</p> <p>Whilst we recognise the impacts on the service areas in implementing and operating these grants, the outcomes of our audits resulted in Limited Assurance being provided. This is primarily due to various factors, including inconsistencies in application assessment and awards; quality, accuracy, and availability of supporting evidence; instances of potential duplicate payments, albeit that this issue was not across all schemes.</p>	
Household Support Fund (ANA – High, Client Request)	Status: Final  Limited Assurance	<p>The audit identified many lessons to be learnt from the first schemes (October 2021 to September 2022) that are applicable to the new scheme effective October 2022.</p> <p>In our opinion the scheme design would have provided a more robust framework and subsequently reduced the risk of the issues and errors had the pre scheme advice and recommendations from Internal Audit been implemented. However, this does not negate the impact of the advised capacity issues, scheme timing requirements, and volume of applications on the Council's ability to fully implement and operate the required framework.</p>	







## COVID-19 RESPONSE

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>We identified a number of issues, notably a significant overpayment to one applicant, and a lack of service agreements for third party processing of funds, particularly the Citizen Advice Bureau. This has led to the need for discussions between the Council and the Citizens Advice Bureau in relation to the return of monies, identified during the Audit.</p> <p>Whilst we were aware of the process for Pensioner Credit applications and the introduction of a QC process, due to the timing of these being taken forward i.e., August 2022, they were not examined within this audit. We did however note a potential risk in relation to Pensioner Credit applications in that reliance was placed on provision of a listing from DWP which was a point in time listing and therefore could have been subject to change through the timing of the scheme.</p>	
<b>Covid-19 Response Grant Certification</b>			
Test and Trace Contain Outbreak Management Fund Surge Funding x 3	Status: Complete	No issues identified	N/A
Practical Support for Self- Isolation x 4	Status: Complete	An initial review found that the grant had not been spent so will be returned to the Department for Health and Social Care	N/A
Test & Trace Support Payments Scheme 2020-21	Status: Complete	No issues identified	N/A
Test & Trace Support Payments Scheme 2021-22	Status: Complete	No issues identified	N/A
The following audits are currently in progress: <ul style="list-style-type: none"> <li>• Omicron Grants (ANA – High, Client Request)</li> <li>• CTAX rebate (ANA – High, Client Request)</li> <li>• Covid Additional Relief Fund (ANA – High, Client Request)</li> </ul>			


## CROSS DIRECTORATE

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audit is currently in progress: <ul style="list-style-type: none"> <li>• Service Delivery Interdependencies and related Improvement Plans (Adult Services, Children's Services and Public Health) (ANA – High, Client request)</li> </ul>			

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Tor Bay Harbour Authority – Mooring System (contract management) (ANA - Medium)	Status: Final Reasonable Assurance	<p>We evaluated the ongoing management of the Tor Bay Harbours contract for the provision of Inspection and Maintenance of Brixham Harbour Moorings. We found that contract monitoring is being undertaken, the processes for which are considered reasonably robust. There are opportunities to further strengthen the contract monitoring processes through identification and ongoing monitoring of associated performance indicators.</p> <p>In relation to value for money, the charging aspect of the contract is closely monitored, and we understand that upon contract end date, Tor Bay Harbours are considering undertaking a tender exercise to ensure value for money is maintained.</p> <p>Within the current contract charges, we identified an instance where the overall annual charge may potentially exceed the agreed contract charges. We understand this is related to a supplier issue and increased cost of parts. Whilst the contract supplier has indicated that they would endeavour to ensure charges remain within the agreed contract, this is outside of the contract terms. We have therefore recommended that Procurement advice is sought to determine whether a contract variation may be required.</p>	
Port Marine Safety Code (ANA-Medium)	Status: Final Compliant	<p>We have undertaken a follow up of the previous findings and recommendations made in relation to 2021 and undertaken a current assessment of Tor Bay Harbour Authority against the requirements of the Port Marine Safety Code. We have examined a restricted sample of records relating to both previous recommendations made and current practices in relation to the Tor Bay Harbour Authority and its compliance with the requirements of the Code and obtained such explanations and carried out such tests as we consider necessary to confirm Management have actioned previous recommendations and remain compliant with the Code.</p> <p>To the best of our knowledge and belief, having carried out appropriate checks within the remit of both the follow up and annual compliance exercise and considered responses provided to us by relevant Harbour staff, in our opinion Tor Bay Harbour Authority remains compliant with the Port Marine Safety Code.</p>	
Parking (ANA-Medium)	Status: Draft  Limited Assurance	<p>Although there is a Parking Strategy in place, it is dated 2016-21 and has not been reviewed since it was implemented in 2016.</p> <p>It is pleasing to see that many of the recommendations from the previous audit have been implemented and testing has now been able to take place due to reports being produced from the Taranto system. However, there are still a number of issues that were identified this year, hence the opinion still being one of 'limited assurance'.</p> <p>Parking charges are reviewed annually by the Council as part of the budget. In April 2022, an amendment was made to the approved charges, however the proper procedures, as required by the Authority's Financial Regulations were not followed. In addition, for some zones, the published charges are not in line with the approval document as we understand the document was inaccurate when approved.</p>	

PLACE			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
		<p>As of 31st March 2022 the level of debts in relation to PCNs had increased significantly on the previous year. It is understood that this figure includes cases that have been returned from the bailiffs as unrecoverable and need to be written off, however staffing issues have meant these write-offs have been unable to take place.</p> <p>Management have advised that areas of weakness identified should in part be attributed to insufficient capacity in the team which we are advised is an ongoing issue.</p>	
Public Toilets (contract monitoring) (ANA – Low, client request)	Status: Draft  Limited Assurance	<p>There has been progress against the previous audit agreed actions, with one action currently outstanding in relation to a discrepancy between the supplier’s system (MOXI) and the Council’s finance system (FIMS). The contract clearly defines the required aspects of the Public Toilet provision, however there are some areas where this could be strengthened, for example the requirement for further contract variations where additional requirements have been added.</p> <p>Due to an advised capacity and staff availability issue at SWISCo, the provision of supporting evidence has been limited and as such, whilst we have been able to provide some aspects of assurance in relation to the contract content itself, we have been very limited in relation to being able to provide assurance regarding the practical operational contract management processes operated by SWISCo, and as such, are unable to fully confirm the suppliers compliance with the contract. We have made a number of recommendations requiring SWISCo to provide the Council with assurance that the required contract management processes are being effectively operated and that the supplier is compliant with contract terms.</p>	
The following audits are currently in progress: <ul style="list-style-type: none"> <li>• Tor Bay Harbour Authority (ANA – Medium)</li> <li>• Asset Management Strategy / Plan (ANA – High)</li> <li>• Technology Forge system review (ANA – Medium)</li> </ul> The following audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>• Housing Companies (client role / management) (ANA – High)</li> <li>• SWISCo (client role / management) (ANA – High)</li> <li>• Climate Change (ANA – High)</li> </ul>		The following grant certification audits are currently in progress: <ul style="list-style-type: none"> <li>• Grant - Bus Subsidy x 2 (2020-21 and 2021-22)</li> <li>• Grant – Home to School and College</li> <li>• Grant – Travel Demand Management</li> <li>• Grant – Local Transport Capital Block Funding</li> <li>• Grant – Local Growth Fund (Torquay Gateway)</li> <li>• Grant – Local Growth Fund (EPIC)</li> <li>• Grant – Local Growth Fund (Torbay Business Centre)</li> </ul> The following grant certification audits are not due to commence until the second half of the year: <ul style="list-style-type: none"> <li>• Grant – Local Growth Fund (Claylands)</li> </ul>	

## CHILDREN'S SERVICES

CHILDREN'S SERVICES			
Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
Virtual School – Personal Education Plan (ANA – Medium)	Status: Draft  Limited Assurance	Assurance was reported in last year's annual report; please refer to that report for details.	
<b>Children's Services Grant Certification</b>			
Troubled Families Grant Claims x 2	Status: Complete	One family on each claim was removed as found to be ineligible. However, these were replaced with new cases, so the amount claimed in each instance did not change.	N/A
<p>The following audits / grant certifications are currently in progress:</p> <ul style="list-style-type: none"> <li>Child Protection Processes and Planning Conference (ANA – High)</li> <li>Commissioning &amp; Performance Management (direct contract management – Young Devon Contract) (ANA – Medium)</li> <li>Recruitment, Retention and Learning Academy</li> <li>School Condition Allocations Grant</li> <li>Basic Need Funding Grant</li> </ul> <p>The following audits / grant certifications are not due to commence until the second half of the year:</p> <ul style="list-style-type: none"> <li>Quality Assurance and Audit Frameworks (ANA – High)</li> <li>Troubled Families Grant Claims (Quarters 3 and 4)</li> </ul>		<p>The following audits have been deferred / cancelled due to the impact of other priorities on the service or due to alternative oversight arrangements:</p> <ul style="list-style-type: none"> <li>Fostering and connected carers (ANA – Medium)</li> <li>Sufficiency Strategy Progress (ANA – High)</li> <li>Higher Needs / SEND Block Progress (ANA – High)</li> </ul>	
Schools Financial Value Standards (SFVS)	Reasonable Assurance	The SFVS Dedicated Schools Grant Chief Finance Office assurance statement for 21/22 was submitted to the Department for Education. Work is already underway to collate the 2022/23 returns received from schools, the results of which will appear in the latest CFO assurance statement that has to be submitted to DfE by 31 <sup>st</sup> May 2022.	N/A
Maintained Schools audit programme	Not Applicable	Following the impacts of Covid-19, plans are in place to complete the necessary reviews by the end of the Spring term 2023 so that the audit cycle is back on track.	N/A
<b>Maintained Schools Summary Data</b>			
Whilst no school visits have taken place during this time, the reviews are planned for completion by the end of the Spring term 2023, enabling us to provide a summary in the annual audit monitoring report.			N/A

## ADULT SERVICES INCLUDING COMMUNITY AND CUSTOMER SERVICES

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
The following audits are currently in progress:			
<b>Adult Services</b> <ul style="list-style-type: none"> <li>Adult Social Care Precept Use (Control of Procurement and Spend) (ANA – High)</li> <li>Adult Social Care Client Debt (Monitoring of commissioned function) (ANA – High)</li> </ul>		<b>Community and Customer Services</b> <ul style="list-style-type: none"> <li>Vulnerable Renters (use of Homelessness Prevention grant and other grants) (ANA – High)</li> <li>Housing Options (focussed on Temporary Accommodation) (ANA – High)</li> </ul>	
The following audits are not due to commence until the second half of the year:			
<b>Community and Customer Services</b> <ul style="list-style-type: none"> <li>Health &amp; Safety (ANA – High)</li> <li>Housing (including cross council joint working) (ANA – Medium)</li> </ul>			

## PUBLIC HEALTH

Risk Area / Audit Entity	Audit Report		
	Assurance opinion	Residual Risk / Audit Comment	Direction of Travel Assurance
<b>Public Health Grant Certification</b>			
Universal Drug Grant	Status: Complete	No issues identified	N/A
Adult Weight Management Services Grant	Status: Complete	No issues identified	N/A
The following audit is currently in progress:			
<ul style="list-style-type: none"> <li>0-19 Service Commissioning and Performance Management (ANA – High)</li> </ul>			

## Appendix 2 - Professional Standards and Customer Service

### Conformance with Public Sector Internal Audit Standards (PSIAS)

**Conformance** - Devon Audit Partnership conforms to the requirements of the PSIAS for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Our internal audit charter was approved by senior management and the Audit Committee in March 2021. This is supported through external assessment of conformance with Public Sector Internal Audit Standards & Local Government Application note in November 2021.

**Quality Assessment** – through external assessment “DAP is considered to be operating in conformance with the standards”. External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) Quality Assessment & Public Sector Internal Audit Standards (PSIAS). The Head of Devon Audit Partnership also maintains a quality assessment process which includes review by audit managers of all audit work. The quality assessment process and improvement are supported by a development programme.

**Improvement Programme** – DAP maintains a rolling development plan of improvements to the service and customers. All recommendations of the external assessment of PSIAS and quality assurance were included in this development plan and have been completed. This will be further embedded with revision of our internal quality process through peer review. Our development plan is regularly updated, and a status report was reported to the Management Board and Partnership Committee in June 2022.

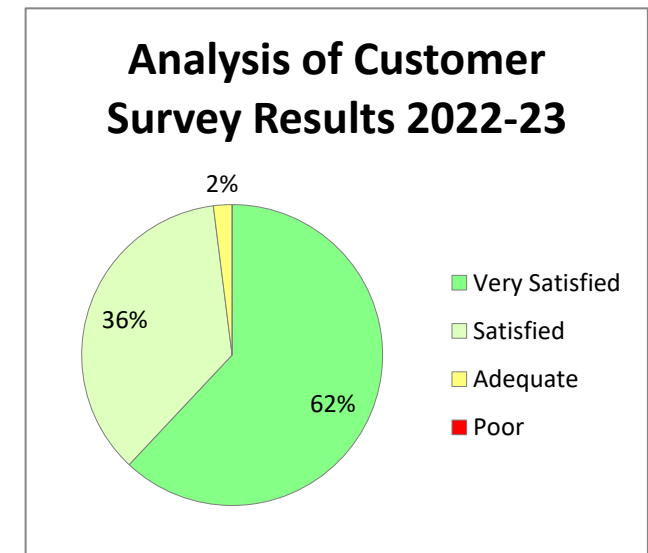
### Performance Indicators

Overall, performance against the majority of indicators has been maintained with one exception (see Appendix 6). To note that certain areas of the audit plan relate to project work and will not be complete until the end of the year. As already mentioned on page 4, there has remained an ongoing need for agility in the delivery of the 2022/23 agreed audit plan, in order to accommodate departmental capacity to support the audit process.

### Customer Service Excellence (CSE)

In November 2021, DAP was successful in re-accreditation by G4S Assessment Services of the CSE. We continue to issue client survey forms with our final reports and the results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with 98% being “satisfied” or better across our services, see appendix 7. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

The next External Assessment is being planned and is due to take place early in 2023.





## Appendix 3 - Audit Authority



## Appendix 4 - Annual Governance Framework Assurance

**The conclusions of this report provide the internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.**

The Annual Governance Statement (AGS) provides assurance that

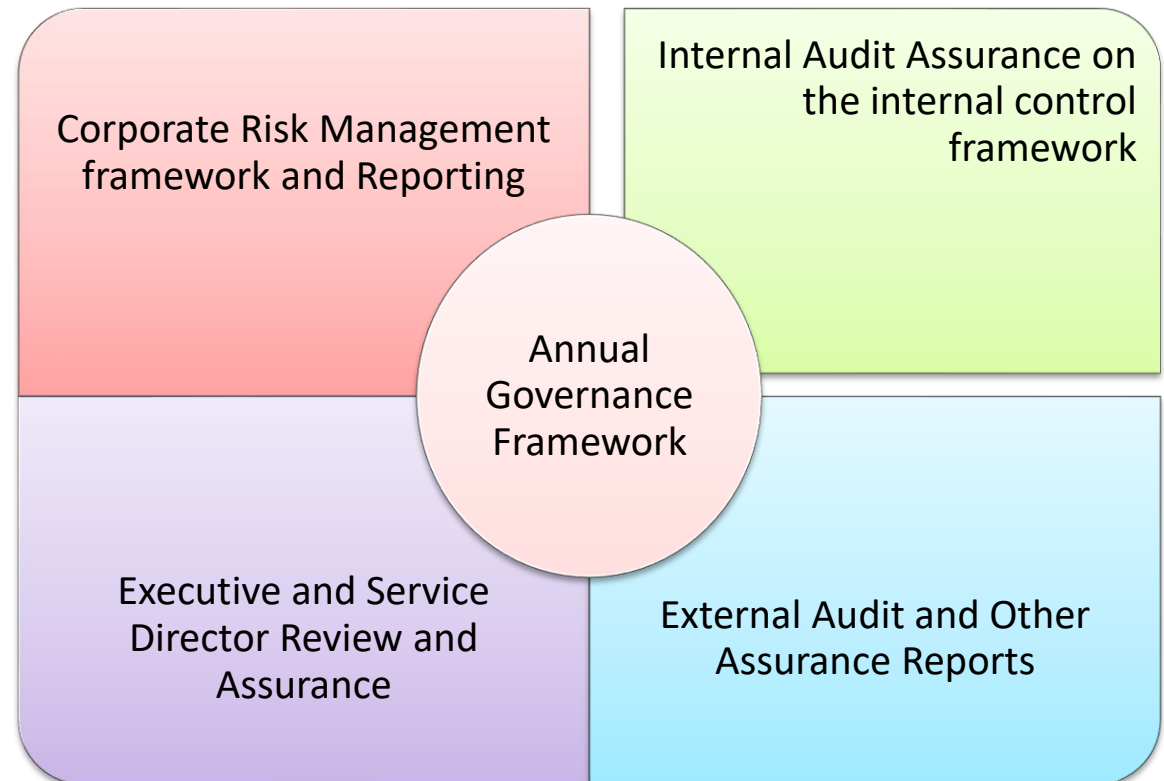
- the Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

- be prepared by senior management and signed by the Chief Executive and Chair of the Audit Committee;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that has been followed to ensure that the governance arrangements remain effective. This will include comment upon;
  - The Authority;
  - Audit Committee;
  - Risk Management;
  - Internal Audit;
  - Other reviews / assurance.

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Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Corporate Risk Management Group, Executive and Internal Audit that the statement meets statutory requirements and that the management team endorse the content.



## Appendix 5 - Basis for Opinion

The Chief Internal Auditor is required to provide the Council with an opinion on the adequacy and effectiveness of its accounting records and its system of internal control in the Council. In giving our opinion, it should be noted that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, formed from risk-based reviews and sample testing, of the framework of governance, risk management and control.

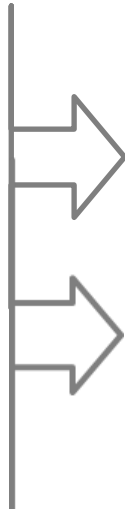
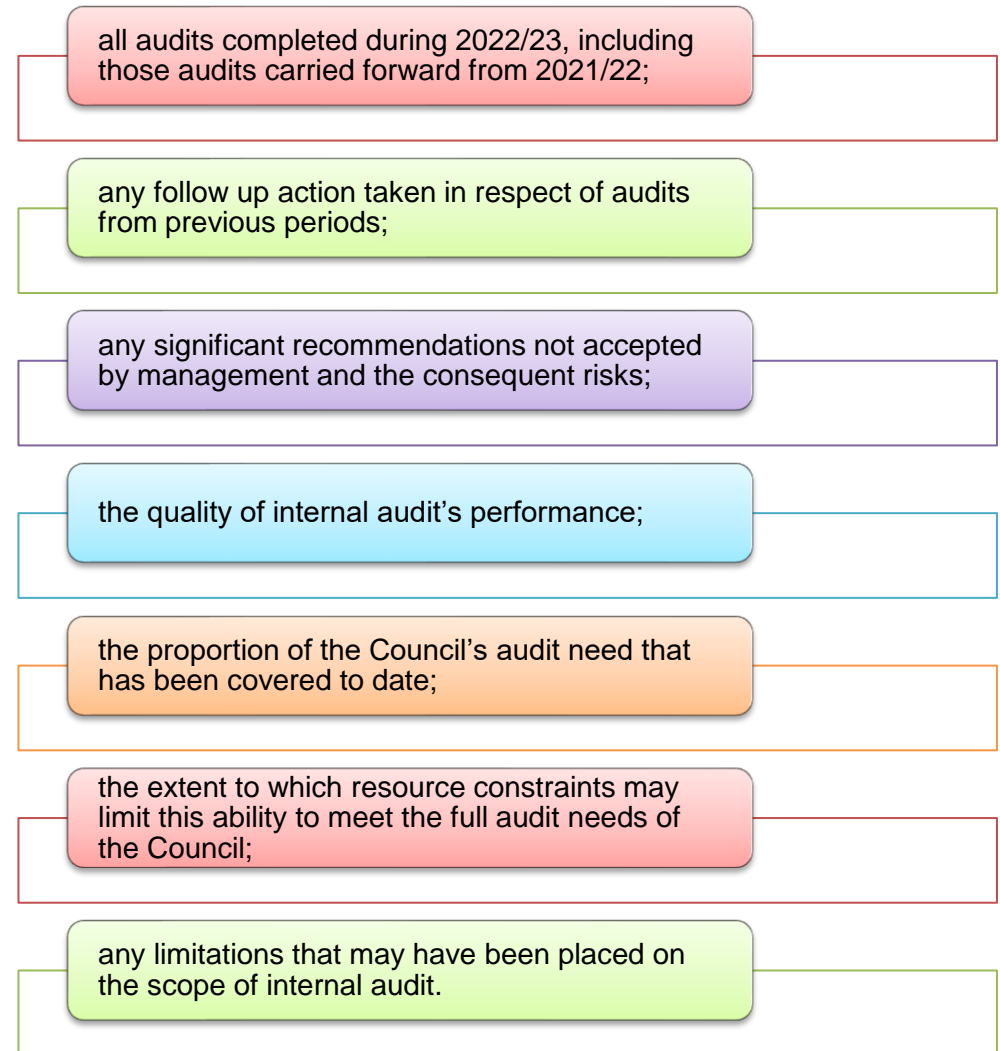
This report compares the work carried out with the work that was planned through risk assessment; presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Authority's internal control environment; and summarises the performance of the Internal Audit function against its performance measures and other criteria. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year. It gives:

- a statement on the effectiveness of the system of internal control in meeting the Council's objectives;
- a comparison of internal audit activity during the year with that planned;
- a summary of the results of audit activity and;
- a summary of significant fraud and irregularity investigations carried out during the year and anti-fraud arrangements.

The extent to which our work has been affected by changes to audit plans has been minimal and any changes are shown in Appendix 1.

However, as mentioned, completion of work has been delayed. The overall audit assurance will have to be considered in light of this position.

In assessing the level of assurance to be given the following have been taken into account:



## Appendix 6 – Performance Indicators

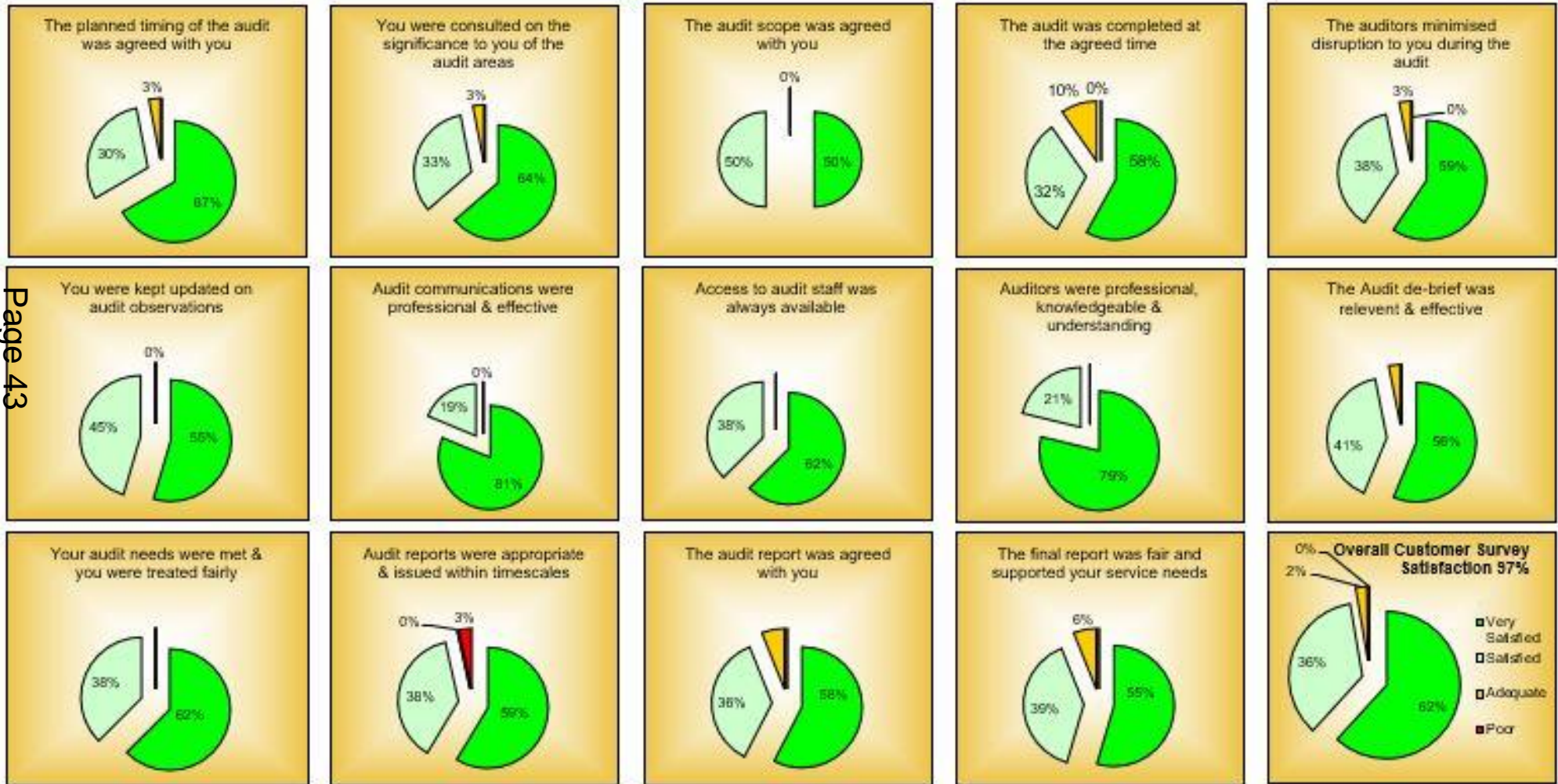
There are no national Performance Indicators in existence for Internal Audit, but the Partnership does monitor the following Local Performance Indicators LPI's:

<i>Local Performance Indicator (LPI)</i>	<i>2020/21</i>	<i>2020/21</i>	<i>2021/22</i>	<i>2021/22</i>	<i>2022/23</i>	<i>2022/23</i>
	<i>Target</i>	<i>Actual</i>	<i>Target</i>	<i>Actual</i>	<b>Full Year Target</b>	<b>Six Month Actual</b>
Percentage of Audit plan Commenced (Inc. Schools)	100%	100%	100%	100%	100%	69%
Percentage of Audit plan Completed (Inc. Schools)	93%	95%	93%	83%	93%	35%
Actual Audit Days as percentage of planned (Inc. Schools)	95%	108%	95%	86%	95%	47%
Percentage of fundamental / material systems reviewed annually	100%	100%	100%	100%	100%	100%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	96%	90%	97%	90%	98%
Draft Reports produced within target number of days (currently 15 days)	90%	90%	90%	92%	90%	93%
Final reports produced within target number of days (currently 10 days)	90%	100%	90%	98%	90%	100%

Overall, performance against most indicators has been maintained, the exception to this being 'Percentage of Audit plan completed'. Departments have been less able to support the audit process due to the continued recovery from and ongoing impacts of Covid-19, and departmental higher priorities, resulting in delays in audit completion. As expected, certain areas of the audit plan relate to project work, the completion of which is aligned to project timescales.

# Appendix 7 - Customer Service Excellence

## Customer Survey Results April 2022 - September 2022



# APPENDIX 8 – Adult Social Care Letter of Assurance



ASW Assurance  
Newcourt House  
Newcourt Drive  
Old Rydon Lane  
Exeter, EX2 7JQ

Mr M Phillips, Chief Finance Officer  
Torbay Council  
Town Hall  
Castle Circus  
Torquay, TQ1 3DS

Sent via email to [marin.phillips@torbay.gov.uk](mailto:marin.phillips@torbay.gov.uk)

28<sup>th</sup> July 2022


Our ref: JM

Dear Mr Phillips,

## Introduction

The following statement of assurance is provided by the Director of Audit and Assurance Services at ASW Assurance; the provider of internal audit, counter fraud and consultancy services to Torbay and South Devon NHS Foundation Trust; in relation to services provided to the Trust for 2021/2022.

This assurance statement consists of the following elements:

-  Internal Audit Assurance Statement.
-  Counter Fraud Service Assurance Statement.

## Internal Audit Assurance Statement

In conformance with the ASW Assurance Internal Audit Charter, Public Sector Internal Audit Standards and the Core Principles for the Professional Practice of Internal Auditing, the Head of Internal Audit is required to provide an annual opinion, based upon and limited to the work performed on the overall adequacy and effectiveness of an organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). ASW Assurance is externally assessed as compliant with Public Sector Internal Audit Standards.

The opinion provided to Torbay and South Devon NHS Foundation Trust for 2021/2022 was substantially derived from the risk-based plan generated from the Trust-led Assurance Framework that took into consideration the strategies, objectives and risks of the organisation, the expectations of senior management, the Trust Board and other stakeholders, that was agreed by management and approved by the Audit Committee.

The **basis** for forming my opinion, was as follows:

1. An assessment of the design and operation of the underpinning Assurance Framework and supporting processes.
2. An assessment of the range of individual opinions arising from risk-based audit assignments contained within the internal audit risk-based plan that were reported throughout the year. This assessment took account of the relative scope and materiality of these areas and management's progress in respect of addressing control weaknesses.
3. Any reliance that was placed upon third party assurances.



**My overall opinion was that:**

**Significant assurance** could be given that there was a generally sound system of internal control, designed to meet the Trust's objectives, and that controls were generally being applied consistently. Weaknesses in the design and/or inconsistent application of controls, which put the achievement of particular objectives at risk, were appropriately managed.

The assurances provided from the work undertaken, which together supported this opinion, are set out below. Our work continued to consider the impact of any changes to relevant systems, processes and/or procedures in response to COVID-19, any limitations in scope of work on account of the pandemic and/or any subsequent restoration and transformation changes.

The Trust took the opportunity through the Audit and Assurance Plan for 2021/2022 to focus resource on areas where Internal Audit could add the most value to the Trust during the COVID-19 period and transition toward recovery. The robustness of the actions to be taken to address risks identified from our work and to make sustainable improvements to policies and practice are considered by the Risk Group.

The tables below detail the audit and assurance work we completed in support of the Head of Internal Audit Opinion for 2021/2022:

Corporate Governance, (incorporating Board Assurance Framework and Risk Management)

Audit	Assurance Rating
Board Assurance Framework	Significant
Risk Management	Satisfactory

Financial Management Systems:

Audit	Assurance Rating
Combined Finance Review	Satisfactory
Ledger	Satisfactory
Payroll, Part 1 annual review	Limited
Payroll Part 2 Winter Incentive Payments	Draft Limited
Social Care Debt Management	Satisfactory
External Financial Assessments, Financial Reporting and Budgetary Control	Satisfactory

Corporate Assurance:

Audit	Assurance Rating
Torbay Council Assurance – Transition from Children's Services	Satisfactory
Estates and Facilities Management (Safety) Management	Satisfactory
Bank and Agency Management	Satisfactory

Health Informatics Service External review - Sirius action Plan	Satisfactory
Torbay Pharmaceuticals	Satisfactory

In support of the Head of Internal Audit Opinion work we reviewed Trust Board Sub-committee and group papers to assess the Cyber Security arrangements and conducted an assessment of the Trust's self assessed position of its compliance with the requirements of the Data Security and Protection Toolkit (DSPT) using NHS Digital's Auditing guidance.

### Third Party Assurance

We included the following Third Party assurance report in the Head of Internal Audit Opinion:

#### Third Party Assurance report in respect of IT General Controls in respect of the Electronic Staff Record (ESR)

The 2021/2022 Independent Service Auditor's report provided by PwC, dated 4<sup>th</sup> May 2022, provided qualified assurance in respect of the IT general controls in relation to the national Electronic Staff Record and the NHS General Ledger Interface.

The audit work conducted by PwC covered the following six areas:

-  Change Management
-  Logical Security
-  Problem Management and Performance and Capacity Planning
-  Physical Security and Environmental Controls
-  Computer Operations
-  Payslip Distribution

The key message in the overall audit opinion of the Report of the Independent Service Auditor leading to the qualified opinion, for the period from 1 April 2021 to 31 March 2022, was as follows:

*the controls necessary to ensure that access to the development and production areas of the NHS hub was controlled and appropriately restricted, were not in place from 1 April 2021 to 6 June 2021 but were implemented on 7 June 2021. As a result, there were insufficient logical access controls in place to appropriately restrict access to the development and production area of the NHS hub for part of the reporting period and therefore controls were not suitably designed to achieve Control Objective 2 "Controls provide reasonable assurance that security configurations are created, implemented and maintained to prevent inappropriate access" during the period 1 April 2021 to 6 June 2021.*

The same control issue and qualification was raised in the May 2021 report produced by PwC. As the lack of control related to access controls within the development team of ESR, it had no bearing on the live system and it did not affect the running of each organisations' payroll. The control issue was resolved on the 7<sup>th</sup> June 2022.

The report summarised a small number of exceptions found where in the auditor's opinion controls had been poorly designed and/or had not operated as intended. Management responses to the exceptions outlined changes to controls or procedures to be made or provided further information to explain why, despite the exceptions being identified, the risk remained minimal.

Except for the matters referred to in the paragraphs above, controls were suitably designed and operated effectively throughout the period 1 April 2021 to 31 March 2022.

#### Internal Audit Recommendations

In respect of the audits undertaken during the year, recommendations were agreed with management to address gaps in control and assurance. We monitored the status of these recommendations throughout the year, reporting directly to the Risk Group and the Audit Committee on recommendations which remained outstanding.

No significant matters were reported to the Audit Committee in the year, in respect of the follow-up of recommendations.

#### Counter Fraud Assurance Statement

The NHS Counter Fraud Authority (NHSCFA) requires the Trust to have sound counter fraud arrangements in place that meet NHSCFA standards.

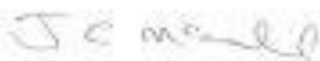
The Counter Fraud function of Torbay and South Devon NHS Foundation Trust is overseen by the Chief Finance Officer and the NHSCFA. An annual work plan was prepared and approved by the Audit Committee and delivery was reported to the Audit Committee at each of its meetings. As part of the Strategic Governance of the Counter fraud function, the Audit Committee are able to question all submissions made by the LCFS and challenge the progress of investigations or any element of their work plan to ensure delivery.

The annual Counter Fraud work plan covered the 13 components of the Government Functional Standard 013: Counter Fraud:

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>✔ Accountable Individual (Part A and B)</li><li>✔ Counter Fraud Bribery and Corruption Strategy</li><li>✔ Fraud bribery and corruption risk assessment</li><li>✔ Policy and response plan</li><li>✔ Annual Action Plan</li><li>✔ Outcome-based metrics</li></ul> | <ul style="list-style-type: none"><li>✔ Reporting routes for staff, contractors and members of the public</li><li>✔ Report identified loss</li><li>✔ Access to trained investigators</li><li>✔ Undertake detection activity</li><li>✔ Access to and completion of training</li><li>✔ Policies and registers of gifts and hospitality and Conflicts of Interest</li></ul> |
|--|--|

The Trust's counter fraud arrangements are assessed annually through the submission of an annual report covering the Government Counter Fraud Functional Standard and the Government Counter Fraud Functional Standard Return (CFFSR). This was approved by both the Chief Finance Officer and the Chair of the Audit Committee before submission to the NHSCFA.

The Trust scored an overall Green rating in the CFFSR.



**Jenny McCall**  
Director of Audit and Assurance Services  
ASW Assurance

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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at <a href="mailto:tony.d.rose@devonaudit.gov.uk">tony.d.rose@devonaudit.gov.uk</a>.</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.</p> <p>This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.</p>



**Meeting:** Audit Committee/Council

**Date:** 25 January 2023/7 March 2023

**Wards affected:** All Wards in Torbay

**Report Title:** Treasury Management Strategy 2023/24 including adoption of the CIPFA Code of Practice: Treasury Management in the Public Services

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**Director/Assistant Director Contact Details:** Martin Phillips, Director of Finance, [martin.phillips@torbay.gov.uk](mailto:martin.phillips@torbay.gov.uk) and Pete Truman, Principal Accountant, [pete.truman@torbay.gov.uk](mailto:pete.truman@torbay.gov.uk)

## 1. Purpose of Report

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- 1.1 The Treasury Management Strategy at Appendix 2 to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2023/24 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meeting on 2nd February 2023.
- 1.3 Adoption of the CIPFA Code of Practice: Treasury Management in the Public Services: Following the updated CIPFA Code of Treasury Management Code of Practice (2021) and the updated CIPFA supporting Guidance Notes (2021) the Treasury Management Policy Statement and Practices (TMP's) have been updated and are presented for re approval by Council as set out in Appendix 1.

## 2. Reason for Proposal and its benefits

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- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management. The Strategy has been fully updated for provisions in a revised edition of the Code released in December 2021 and the recommended policy statement and practices are presented at Appendix 1 for adoption by the Council.

- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of statutory guidance on Local Government Investments issued by government in January 2018. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Treasury Management Strategy gives regard to the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

### 3. Recommendation(s) / Proposed Decision

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That the Audit Committee recommends to Council:

- i. That the CIPFA Code of Practice: Treasury Management in the Public Services as set out in the Appendix 1 to the submitted report be adopted; and
- ii) that the:
  - a) Treasury Management Strategy for 2023/24;
  - b) the Prudential Indicators 2023/24; and
  - c) the Annual Minimum Revenue Provision Policy Statement for 2023/24 as set out in the Appendix 2 to the submitted report be approved.

#### **Appendices**

Appendix 1: Treasury Management Policy Statement and Practices

Appendix 2: Treasury Management Strategy 2023/24

# Supporting Information

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## 1. Introduction

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- 1.1 The proposed Treasury Management Strategy for 2023/24 is set out at Appendix 2.
  
- 1.2 CIPFA released an updated Code of Practice to cover all aspects of financial investments in December 2021. Local Authorities were permitted to delay full adoption of the new code until 2023/24.

## 2. Options under consideration

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- 2.1 As set out in Appendix 2.

## 3. Financial Opportunities and Implications

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- 3.1 As set out in Appendix 2.

## 4. Legal Implications

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- 4.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

## 5. Engagement and Consultation

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- 5.1 Not applicable

## 6. Purchasing or Hiring of Goods and/or Services

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6.1 Not applicable

## 7. Tackling Climate Change

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7.1 Not applicable

## 8. Associated Risks

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8.1 Treasury Management associated risks are managed by compliance with the CIPFA code.

## 9. Identify the potential positive and negative impacts on specific groups

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9.1

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X

People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X
Socio-economic impacts (Including impact on child poverty issues and deprivation)			X
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			X

## 10. Cumulative Council Impact

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10.1 Not applicable

## 11. Cumulative Community Impacts

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11.1 Not applicable

## TREASURY MANAGEMENT POLICY STATEMENT

1. The Council defines its treasury management activities as:

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

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”
4. Non Treasury Investments are other investments that are undertaken for reasons other than treasury management activities. These include Investment Properties, Loans and Guarantees.





# TREASURY MANAGEMENT PRACTICES

## TMP1 Risk Management

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting Requirements and Management Information Arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

### 1.1 Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments Methods and Techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

### 1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### **1.3 Interest Rate Risk Management**

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

### **1.4 Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the Council has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

### **1.5 Inflation Risk**

Inflation risk, also known as purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation

The Council will keep under review the sensitivity of its treasury and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposure.

### **1.6 Refinancing Risk Management**

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

### **1.7 Legal and Regulatory Risk Management**

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

### **1.8 Fraud, Error and Corruption, and Contingency Management**

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **1.9 Price Risk Management**

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP 2 Performance Measurement**

The Council is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

## **TMP 3 Decision Making and Analysis**

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

## **TMP 4 Approved Instruments, Methods and Techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined and parameters defined in TMP1 *Risk Management*

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

## TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief finance Officer will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.



## TMP 6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

- Full Council will receive:
  - an annual report on the strategy and plan to be pursued in the coming year
  - a mid-year review
  - an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.
- The Audit Committee will receive regular monitoring reports on treasury management activities and risks.
- The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.
- Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

## **TMP 7 Budgeting, Accounting and Audit Arrangements**

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

## **TMP 9 Money Laundering**

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

## **TMP 10 Training and Qualifications**

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

## **TMP 11 Use of External Service Providers**

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

## **TMP 12 Corporate Governance**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.



# TMP 13 Non Treasury Investments

## Risk Management:

Linked to principles in TMP1, the Council regards a key objective of its non-treasury investments to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all non-treasury investment including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of non-treasury investments, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements.

The risks, and proportionality of, associated with the level of borrowing, ongoing costs and ongoing income are reflected as part of the council's Capital Strategy. For Investment Properties the risks are identified in reporting to the Investment and Regeneration Committee.

## Performance and Management

Linked to principles in TMP2, the strategic management and reporting of Investment Properties performance is the responsibility of the Director of Place with support from the Head of Finance. A Project Board for the Management of Investment properties will meet on a quarterly basis to review performance.

The operational management of these properties is sourced by the Council, primarily from the TDA.

The monitoring of the performance of loans and guarantees will be undertaken by the Head of Finance.

## Decision Making, Governance and organisation

Linked to the principles in TMP5, for Investment Properties the approval to purchase are taken by the Investment and Regeneration Committee in line with the approved Investment and Regeneration Strategy. If decision outside the Strategy parameters this will be a Council approval.

Loans and Guarantees are approved by Council, subject to the officer scheme of delegation.

## Reporting and Management Information

Linked to the principles in TMP6, for Investment Properties the risks are assessed in reporting to the Investment and Regeneration Committee and to Council in the Capital Strategy.

Loans and Guarantees are to be included in TM reporting to Audit Committee

## Training and Qualifications (linked to the principles in TMP10)

The Council sources appropriate expertise from, primarily, the TDA and external advisors as required.

A list of the qualifications and relevant training by members of both the Audit Committee and Investment and Regeneration Committee will be maintained.

# Treasury Management Strategy 2023/24

January 2023



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For more information please contact [financial.services@torbay.gov.uk](mailto:financial.services@torbay.gov.uk)

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# 1 Introduction

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Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council borrows and invests 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 financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and the strategy also has regard to guidance within the CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition.

The Strategy for 2023/24 covers:

- Capital expenditure and prudential indicators
- the minimum revenue provision (MRP) policy
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- treasury indicators which limit the treasury risk and activities of the Council
- policy on use of external service providers;
- reporting arrangements and management evaluation
- other matters

## 2 Capital Expenditure and Prudential Indicators

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below, which are designed to assist Members' overview and confirm capital expenditure plans.

### Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Council is planning capital expenditure of £110m as summarised below (figures based on capital plan estimates as at December 2022 and prior to completion of the quarter 3 22/23 capital monitoring update). However, significant revision of these numbers cannot be ruled out given pressures on scheme budgets and their impact on spend profiles.

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

£M	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund services	27	39	110	130	1

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

£m	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	15	20	60	6	0
Own resources	2	1	2	6	0
Debt	10	18	48	118	1
<b>TOTAL</b>	<b>27</b>	<b>39</b>	<b>110</b>	<b>130</b>	<b>1</b>

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum

revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out in Table 3:

*Table 3: MRP for financing debt on maturity in £ millions*

	<b>2021/22 actual</b>	<b>2022/23 forecast</b>	<b>2023/24 budget</b>	<b>2024/25 estimate</b>	<b>2025/26 estimate</b>
MRP	8	8	8	10	14

The Council's full policy on Minimum Revenue Provision is set out at Appendix 1

**Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

*Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	<b>2022/23 limit</b>	<b>2023/24 limit</b>	<b>2024/25 limit</b>	<b>2025/26 limit</b>
Authorised limit – borrowing	620	600	600	600
Authorised limit – PFI and leases	20	20	20	20
Authorised limit – total external debt	640	620	620	620
Operational boundary – borrowing	530	500	580	580
Operational boundary – PFI and leases	20	20	20	20
Operational boundary – total external debt	550	520	600	600

## **Revenue Budget Implications**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

	<b>2021/22 actual</b>	<b>2022/23 forecast</b>	<b>2023/24 budget</b>	<b>2024/25 estimate</b>	<b>2025/26 estimate</b>
Net Revenue Stream	£116m	£120m	£131m	£135m	£140m
Financing costs (£m)	£18m	£19m	£20m	£21m	£21m
<b>Proportion of net revenue stream</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>	<b>16%</b>	<b>15%</b>
<i>Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream.</i>	£(13)m	£(13)m	£(13)m	£(13)m	£(13)m
<i>Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income</i>	4%	5%	5%	6%	6%



### 3 Local Context

On 30th November 2022 the Council held £386m of borrowing and £113m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 6 below.

Table 6: Balance sheet summary and forecast

	<b>31.3.22</b>	<b>31.3.23</b>	<b>31.3.24</b>	<b>31.3.25</b>	<b>31.3.26</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Capital Financing Requirement</b>	<b>422</b>	<b>432</b>	<b>471</b>	<b>580</b>	<b>567</b>
Less: Other debt liabilities *	(16)	(15)	(14)	(13)	(12)
<b>Loans CFR</b>	<b>406</b>	<b>417</b>	<b>457</b>	<b>567</b>	<b>555</b>
Less: External borrowing **	(389)	(385)	(378)	(374)	(368)
<b>Internal borrowing</b>	<b>17</b>	<b>32</b>	<b>79</b>	<b>193</b>	<b>187</b>
Less: Usable reserves	(75)	(60)	(55)	(50)	(45)
Less: Other Balance Sheet items/Working capital	(41)	(30)	(30)	(30)	(30)
<b>(Treasury investments)/New borrowing</b>	<b>(116)</b>	<b>(58)</b>	<b>(6)</b>	<b>113</b>	<b>112</b>

\* PFI liabilities that form part of the Council's total debt

\*\* shows only loans to which the Council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to apply its cash resources in place of external borrowing in the short term, i.e. internal borrowing.

The Council has an increasing CFR due to the capital programme and therefore could borrow a maximum of £187m over the forecast period (the internal borrowing total). If the council's cash backed resources of reserves and working capital are used in the short term to delay the need to borrow the minimum the council would need to borrow is £112m. (the new borrowing total). Care will need to be taken in the use of cash balances in the short term to fund long term borrowing.

**It should be noted that these borrowing forecasts are based on the current approved capital plan. The actual level of borrowing required will depend on three key issues:**

- the deliverability and affordability of the current plan in respect of both increased borrowing and construction costs.
- the allocation of the approved totals (approx. £100m) for regeneration and housing to specific schemes
- any new schemes funded from borrowing approved by Council

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 6 shows that the Council expects to comply with this recommendation during 2032/24.

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, The updated Code requires a "liability benchmark" to be calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

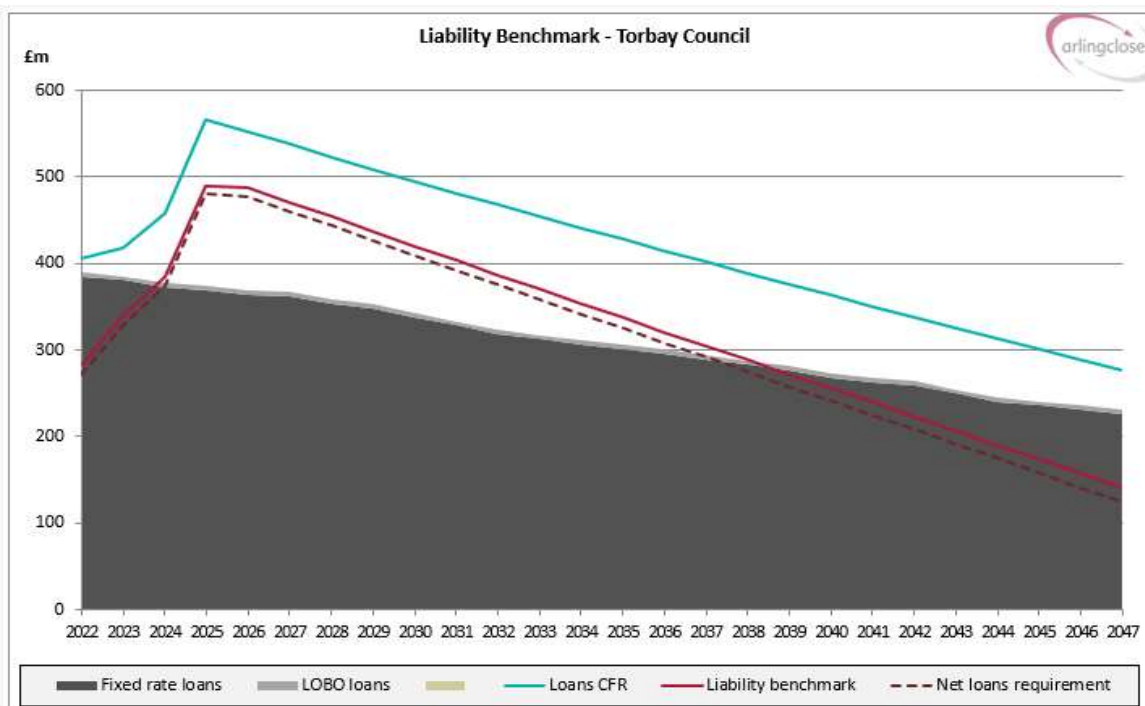
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

However, care will need to be taken in the use of cash balances at a point in time to fund a long-term borrowing requirement as this could result in risks around higher debt costs when borrowing is required.

*Table 7: Prudential Indicator - Liability benchmark*

	<b>31.3.22</b>	<b>31.3.23</b>	<b>31.3.24</b>	<b>31.3.25</b>	<b>31.3.26</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Loans CFR</b>	<b>406</b>	<b>417</b>	<b>457</b>	<b>567</b>	<b>555</b>
Less: Usable reserves	(75)	(60)	(55)	(50)	(45)
Less: Other Balance Sheet items/Working capital	(58)	(30)	(30)	(30)	(30)
Plus: Minimum liquid investments	10	10	10	10	10
<b>Liability Benchmark</b>	<b>283</b>	<b>347</b>	<b>382</b>	<b>497</b>	<b>490</b>

The forecasts in table 2 above, are demonstrated in the chart below together with the maturity profile of the Authority's existing borrowing:



## 4 Economic and Interest Rate Forecast

The Council's advisors, Arlingclose Ltd has provided an economic commentary (updated for November 2022) available at Appendix 2 together with their interest rate forecasts for future years as set out in table 8 below:

Table 8: Arlingclose Ltd interest rates forecast

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Note: The Council will borrow at PWLB certainty rate which is the relevant gilt yield + 0.80%

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

## 5 Borrowing Strategy

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The Council currently holds £386 million of loans, a decrease of £3 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 6 shows that the Council expects to borrow up a minimum of £112million (maximum £187m) over the next three years. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £600 million.

**Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

**Strategy:** the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Assistance will be sought from Arlingclose Ltd with this 'cost of carry' and breakeven analysis; its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

For external borrowing requirements over and above internal borrowing capacity, the Council will look to the PWLB to secure long-term funding of projects. (The Council has previously raised the

majority of its long-term borrowing from the PWLB, however alternative options including the Infrastructure Bank will be considered). This approach may also be combined with short-term borrowing to augment the affordability criteria

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. In addition to the HM Treasury rules in relation to PWLB loans, CIPFA has issued a statement that requires those principles be applied to all forms of borrowing.

The budget for payment of interest on debt for 2023/24 has been based on an assumed £386m of “historic” borrowing as at 31/03/23 with an overall borrowing rate of 2.98% (2.98% in 2022/23). A contingency for new borrowing assumes a rate of 4.50%. As the Council's current debt is on fixed rates with a flat maturity profile the council is not exposed to a refinancing risk of higher costs.

**Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Peninsula Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Municipal Investments using loans and bonds
- “Green” bonds (loans to Council)
- UK Infrastructure Bank

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lend the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. There has been very limited issue by the Agency to date and new issues

**Market and Institutional Borrowing:** These instruments can result in lower rates than PWLB and can be traded ahead of cash need but involve significant resource (and cost) to negotiate and market.

**UK Infrastructure Bank:** Set up in 2021 and wholly owned by HM Treasury, the Infrastructure Bank will lend to local authorities at 20 basis points below PWLB for infrastructure projects which align

with the government's Net Zero objectives or projects that encourage regional and local economic growth. Approvals will be subject to the Bank's confirmation that a local authority's business plan is sound and that it has demonstrated the ability to repay the loan.

The borrowing strategy will be highly influenced by volatility in the Capital Plan arising from inflationary and supply pressures. In view of this the PWLB is likely to remain the most favourable and cost-effective source of borrowing to ensure funding can be committed when certainty of spend is guaranteed.

**Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits below in section 7 Treasury Management Indicators.

**Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Chief Finance Officer may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years. However, as the council has a forecast borrowing requirement the council is unlikely repay "cheaper" debt when it will need to refinance at a higher rate.



## 6 Investment Strategy

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The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balance has ranged from £110 million to around £132 million, and material levels are expected to be maintained in the forthcoming year.

**Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The 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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

**Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

The policy for counterparty selection and investment limits is presented at Appendix 3.

### **Non-Financial Investments Strategy**

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments.

The previous sections relate solely to treasury management "cash" investments and the current schedule of non-financial investments is detailed at Appendix 4. All decisions have followed appropriate risk management framework and strategy for non-financial investments approved by Council in February 2019.

Any involvement by the Council in community investment schemes such as Credit Unions and Mutual Banks would fall into this category and would not be managed within the treasury management policies.

Guidance within the Prudential Code states that, "councils with existing commercial investments are not required by this Code to sell these investments.....however councils that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management strategy.

These reviews should evaluate whether to take expected borrowing needs by taking new borrowing or repaying investments based on a financial appraisal that takes into account of financial implications and risk reduction benefits”

This strategy document indicates no requirement for new borrowing in 2023/24, however a review framework is set out in Appendix 5. The Council’s holding in a pooled property fund is not considered within this review as it forms part of a balanced cash investment portfolio.

The Council’s investment properties are diversified over several sectors and are budgeted in 2023/24 to produce a net surplus, after borrowing costs and reserve provision, of £4.1m. If any of these assets are sold, the council will have to

- fund the revenue shortfall resulting from no rent now being received.
- apply the capital receipt from the asset sale to another project to either avoid borrowing costs on that project or to reinvest in a project that generates an income stream to replace the revenue shortfall, subject to the new project not being primarily for yield.
- Or apply the capital receipt to repay borrowing subject to any early repayment penalties.
- apply the existing ongoing borrowing costs of the asset now sold to another project, where the income from the new project will be able to cover the borrowing costs
- all the above will need to be in pace ideally from date of sale to avoid any ongoing cost of carry of both the old debt and ongoing revenue shortfall.

### Environmental, Social and Governance (ESG) Investments

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council’s ESG considerations do not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Officers will continue to monitor and evaluate ESG investment opportunities, and these may be incorporated into future investment strategies subject to yield and security. Given the limited range of counterparties the Council can use for its investments and that borrowing is mainly from the Government there are limited opportunities to apply ESG principles in this Strategy.

## 7 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 credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, .... A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6)



**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 one-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 1 months	£10m

**Interest rate exposures:** This indicator is set to control the Council’s exposure to interest rate risk. The Council’s debt portfolio is virtually all at fixed rate and therefore has no exposure to fluctuations in interest rates. As such no specific limits are proposed on interest rate exposure but any new borrowing will be restricted to a maximum 30% of the total portfolio exposed to variable interest rate.

**Maturity structure of borrowing:** This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	50%	0%
30 years and within 40 years	60%	0%
40 years and above	50%	0%

**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 will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£20m	£20m	£20m



## 8 Treasury Management Consultants

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Arlingclose Ltd was appointed as the Council's external treasury management advisors for three years from April 2020, following a full tender process.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

## 9 Reporting Arrangements and Management Evaluation

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Members will receive the following reports for 2023/24 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The Chief Finance Officer will inform the Cabinet Member for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Section 2). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer and lead Members.
- Quarterly meeting of the Treasury Manager/ Finance Manager / Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Investment benchmarking against other local authorities via Arlingclose Ltd
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management

The training needs of treasury management officers are periodically reviewed.

## 10 Other Matters

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### Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

### Anti-Money Laundering

The Council will comply with all relevant regulations.

### IFRS 16 Lease Accounting

The Director of Finance will monitor any implications IRFS16 on leases, which became effective in the public sector from April 2024.

# Appendix 1

## Policy on Minimum Revenue Provision for 2023/24

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The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to “determine for the current financial year an amount of MRP that it considers to be prudent” and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

*“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits”*

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table on the following page.)

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated on the total expenditure on that asset, in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes, they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there

is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DCLG will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed (primarily to ensure the MRP period does not exceed asset life); however, as a guide the following are typical ranges for asset lives that will be used.

<b>Asset Type</b>	<b>Range of Asset Life</b>
Freehold Land (specified in DCLG statutory guidance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Note: DLUCH are expected to update the MRP statutory guidance during 2023/24, however the changes are unlikely to impact on the Council's MRP policy.

## Appendix 2

### Economic Commentary

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(Provided by Arlingclose Ltd, January 2023)

**Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates



expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

### **Credit outlook:**

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

### **Interest rate forecast (December 2022):**

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

## Appendix 3

### Creditworthiness Policy and Investment Limits

The Council may invest its surplus funds with any of the counterparty types in table 9 below, subject to the cash limits (per counterparty) and the time limits shown. The Chief Finance Officer will exercise his delegated powers “to take any decisions (including Key Decisions) and to exercise all legal powers relevant to the Council’s borrowing, investments and financial management)” (s.7.1 of the Constitution – Officer Scheme of Delegation) to vary these limits at any time to ensure they remain viable and relevant during any market or political volatility.

Table 9: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£15m	Unlimited
Secured investments *	3 years	£15m	Unlimited
Banks (secured)*	3 years	£15m	Unlimited
Banks (unsecured) *	13 months	£6m	Unlimited
Building societies (unsecured) *	13 months	£6m	£18m
Registered providers (unsecured) *	3 years	£6m	£20m
Money market funds *	n/a	£15m	Unlimited
Strategic pooled funds	n/a	£10m	£20m
Real estate investment trusts	n/a	£10m	£20m
Other investments *	3 years	£6m	£15m

This table should be read in conjunction with the notes below

**\* Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds (such as CCLA) that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government or, on an exception basis, with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

**Investment limits:** The Council’s revenue reserves available to cover investment losses are forecast to be £60 million on 31<sup>st</sup> March 2023. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

*Table 10: Investment limits*

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£15m each

UK Central Government	unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£30m per manager
Foreign countries	£30m per country
Money market funds	£60m in total

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# Torbay Council Audit Progress Report and Sector Update

Year ending 31 March 2022

January 2023  
Page 103



# Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

## Your key Grant Thornton team members are:

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Audit Manager

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at January 2023

## Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March and April 2022.

Our planning work included:

- Updated review of the Authority's control environment

- Updated understanding of financial systems

- Understanding how the Authority makes material estimates for the financial statements

The results of our work to date were included within the May 2022 Audit Committee Progress Update. In summary our planning and interim work has not identified any weaknesses that will impact our audit approach

In March we issued our audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

The Council submitted their draft Financial Statements in September 2022. Initial audit requests were shared with the Council Officers in November 2022, with the audit fieldwork commencing in January 2023.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in March 2023.

# Progress at January 2023 (cont.)

## Meetings

We met with Finance Officers in November as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in November to discuss the Authority's strategic priorities and plans.

## Financial Statements Audit 20/21

The financial statements for 2020/21 remained unsigned while we awaited the outcome of the CIPFA consultation relating to Infrastructure assets.

In January 2023, CIPFA Bulletin 12 'Accounting for Infrastructure Assets – Temporary Solution' was released. The auditors are working through this and will give a verbal update at the Audit Committee on the progress for signing the 2020/21 financial statements.

# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	March 2022	Completed
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	May 2022	Completed
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the March Audit Committee.</p>	March 2023	In progress
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	March 2023	In progress
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	March 2023	In progress
2021/22 Audit-related Deliverables	Planned Date	Status
<p><b>Teachers Pensions Scheme – certification</b></p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	December 2022	Completed
<p><b>Housing Benefit Subsidy – certification</b></p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	February 2023	Not yet due
<p><b>Harbour Audit - certification</b></p> <p>This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

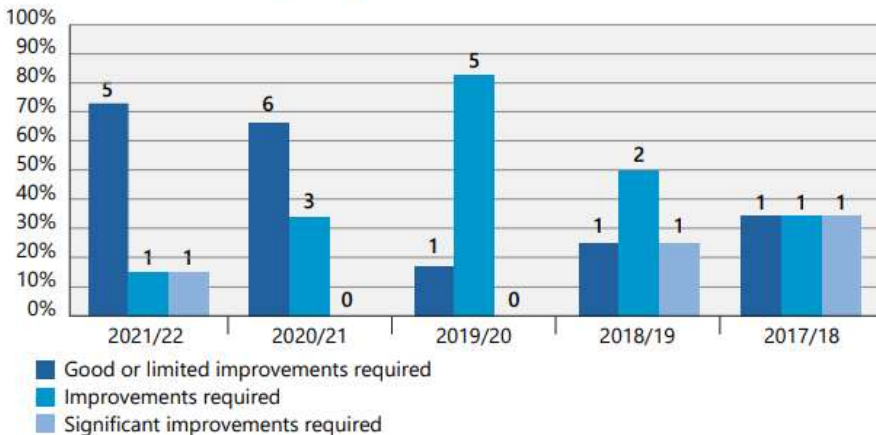
The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

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Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



# Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”





# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

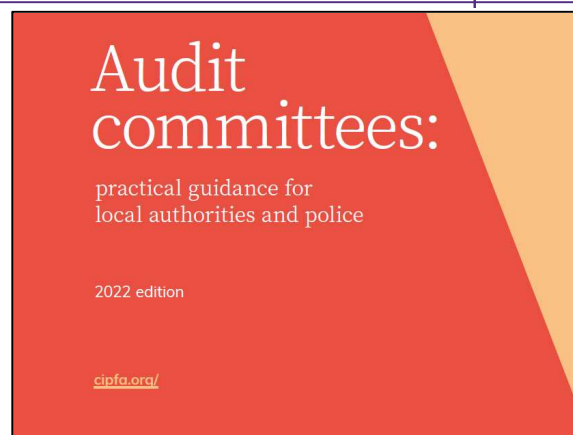
The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

[Audit Committee Guidance: 2022 update | CIPFA](#)





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**SWISCO LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2022**

**SWISCO LIMITED**

**COMPANY INFORMATION**

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<b>DIRECTORS</b>	Anne-Marie Bond Kevin Paul Mowat Martin Keith Phillips Matthew Fairclough-Kay (appointed 1 March 2022)
<b>COMPANY SECRETARY</b>	Joseph While
<b>REGISTERED NUMBER</b>	12213029
<b>REGISTERED OFFICE</b>	Town Hall Castle Circus Torquay Devon TQ1 3DR
<b>INDEPENDENT AUDITORS</b>	Bishop Fleming LLP Chartered Accountants & Statutory Auditors Salt Quay House 4 North East Quay Sutton Harbour Plymouth PL4 0BN
<b>BANKERS</b>	Nat West Bank 108 Union Street Torquay Devon TQ2 5PH

**SWISCO LIMITED**

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## SWISCO LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

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#### INTRODUCTION

The directors present their strategic report and the audited financial statements of the Company for the year ended 31 March 2022.

#### BUSINESS REVIEW

Following the formation of the Company in July 2020, SWISCO has continued to expand its work for the Council. In December 2020 the Council's Highways and Natural Environment client teams were transferred into the company, and the accounts for this period ended 31st March 2022 represent the first full year of the commissioning model which has presented opportunities to improve the quality of customer service and overall business efficiency, by breaking down barriers and enabling more joined up processes between the client and operational teams. The model is the foundation which enables SWISCO to focus on the strategic objective - better outcomes for the citizens of Torbay.

However, in tandem with these over-arching responsibilities (which include discharging important statutory duties and responsibilities for the Council) the Company strategy is to develop a framework of strong governance and performance accountability. The financial and operational effectiveness of the Company has improved and stabilised throughout the year 21/22, thereby minimising any additional financial support from the Council. The Directors recognise that this position needs to be consolidated going forward, and strenuous efforts have been made, and will continue to be made, to consolidate financial and operational performance.

The business environment in the year 21/22 has continued to be challenging, and SWISCO's performance is set against the background of further Covid-related costs, labour market shortages and increasing costs of some construction-related materials; the effects on staff costs have been particularly difficult, with an increased reliance on overtime working and agency-supplied labour, and increases in basic pay to keep up with market competitiveness.

Taking a longer-term view of the Company's financial strategy, the Directors will continue to pursue business efficiency and enhanced customer delivery standards, whilst at the same time applying strict financial control over those trading costs the Company can influence.

#### PRINCIPAL RISKS AND UNCERTAINTIES

One element of improving financial performance, which has been difficult to achieve in the business environment which existed in 2021/2022, continues to be the development of the commercial side of the business, where opportunities do exist. By placing the customer at the heart of everything SWISCO does, the Company aspires to be seen as the provider of choice for residents and businesses alike, and to strengthen the reputation of the Council (as the 100% shareholder).

The Company is on course by 2023, to have matured sufficiently to generate a financial surplus which can then be reinvested to the benefit of the residents and communities of Torbay. This runs alongside the development of upgraded software support systems, which will reduce costs and increase efficiency, and the start of a programme of vehicle replacement which will reduce costs of operating the Company's substantial fleet. The key business improvement themes therefore continue to be:

- Improve the financial efficiency of the business to minimise the level of support required from the Council
- Strive for top-quality customer-focussed services that enhance the reputation of the Council and the Company, and support winning new business and commercial success
- Continue to develop and strengthen the model of governance and performance accountability to highlight the benefits of, and give confidence in, the Council's commissioning approach

SWISCO LIMITED

STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2022

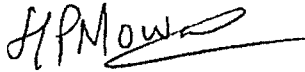
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#### FINANCIAL KEY PERFORMANCE INDICATORS

In the current financial year (2021/22) gains through operational efficiencies have been partly offset by continued pressures on staffing costs in a very difficult labour market, leading to high expenditure on agency staff and increased overtime payments. The senior management of the business have developed a much clearer understanding of the stability and sustainability of the operational side of the business from a financial perspective. As a result, the Company is reporting a substantially-reduced loss of £662,982 during the current financial year. Before posting the year end technical accounting adjustments for the defined benefit pension scheme the Company recorded a surplus of £304,018.

Overall, it is still considered that any alternative commissioning solution (such as part-ownership or fully out-sourced) would likely result in a significantly higher financial strain over the next few years of the business. If the projected efficiency savings, additional operating costs and key initiatives to deliver the Company Business Plan are modelled over the next three financial years, this will result in a predicted sustained reduction in the commissioning fee that would be required from the Council as Shareholder.

This report was approved by the board on 22/11/2022 and signed on its behalf.



Kevin Paul Mowat  
Director

## SWISCO LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

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The directors present their report and the financial statements for the year ended 31 March 2022.

#### DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £662,982 (2021: loss £13,803,094).

#### DIRECTORS

The directors who served during the year were:

Anne-Marie Bond  
Kevin Paul Mowat  
Martin Keith Phillips  
Matthew Fairclough-Kay (appointed 1 March 2022)

#### FUTURE DEVELOPMENTS

SWISCO Limited is proving an exciting opportunity for the Council and its residents. Having stabilised the operation and the financial position of the Company (following the transfer of services from TOR2 Limited in July 2020) the aim continues to be improvement and strengthening of the services provided by the Company. Investment in the company will include replacement and modernisation of its vehicles and replacement and improvement of its IT systems to provide a better interface for Torbay residents and to provide operational efficiencies. A key focus of the company is the ongoing commitment to increase recycling rates such as by improved kerbside collection processes. At the request of the Council the Company also plans to introduce a green waste collection service for Torbay residents. The Company will have a particular focus on working with the community in improving the green spaces throughout Torbay.

**SWISCO LIMITED**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 MARCH 2022**

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**ENGAGEMENT WITH EMPLOYEES**

The Company places considerable value on engagement with its employees and, within the limits of commercial confidentiality, has continued to keep them fully informed of matters that affect progress of the Company and that may be of interest to them as employees.

The Company is committed to inclusion and works to eliminate discrimination, so that employees can work in a diverse environment free from intimidation, victimisation or harassment.

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

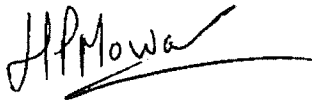
**POST BALANCE SHEET EVENTS**

There have been no significant events affecting the Company since the year end.

**AUDITORS**

The auditors, Bishop Fleming LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



Kevin Paul Mowat  
Director

Date: 22/11/2022

Town Hall  
Castle Circus  
Torquay  
Devon  
TQ1 3DR

## SWISCO LIMITED

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SWISCO LIMITED

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#### OPINION

We have audited the financial statements of Swisco Limited (the 'Company') for the year ended 31 March 2022, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes, including a summary of significant accounting policies and analysis of net debt. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### OTHER INFORMATION

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' report thereon. The directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **SWISCO LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SWISCO LIMITED (CONTINUED)**

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#### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

#### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the Directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the sector, control environment and the Company's performance;
- results of our enquiries of management and the Directors, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to: identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance; detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we have considered the opportunities and incentives that may exist within the organisation for fraud and identified the highest area of risk to be in relation to revenue recognition, with a particular risk in relation to year-end cut-off. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We identified and obtained an understanding of the laws and regulations that are of significance to the Company by discussions with directors and by updating our understanding of the sector in which the Company operated in. Laws and regulations that are of direct significance to the, and of which non-compliance could result in material misstatement, are considered to be the UK Companies Act, FRS 102 and UK tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included data protection, health and safety, employment legislation and appropriate transport regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- reviewing the financial statement disclosures and testing to supporting documentation to assess the recognition of revenue;
- enquiring of Directors and management concerning actual and potential litigation and claims;
- performing procedures to confirm material compliance with the requirements of the above regulations;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of Board meetings; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

**SWISCO LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SWISCO LIMITED (CONTINUED)**

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We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from an error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' report.

**USE OF OUR REPORT**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

*Bishop Fleming LLP*

Nathan Coughlin FCA (Senior statutory auditor)

for and on behalf of

**Bishop Fleming LLP**

Chartered Accountants

Statutory Auditors

Salt Quay House

4 North East Quay

Sutton Harbour

Plymouth

PL4 0BN

Date:

*6<sup>th</sup> December 2022*



SWISCO LIMITED

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £	2021 £
Turnover	4	18,679,987	11,383,035
Cost of sales		(15,143,356)	(10,145,178)
<b>Gross profit</b>		<b>3,536,631</b>	<b>1,237,857</b>
Administrative expenses		(3,762,488)	(2,207,034)
Other operating income	5	-	376,480
Pension deficit transferred in	18	-	(12,961,000)
<b>Operating loss</b>	6	<b>(225,857)</b>	<b>(13,553,697)</b>
Interest payable and similar expenses	6	(166,125)	(121,397)
Other finance expense	18	(271,000)	(128,000)
<b>Loss before tax</b>		<b>(662,982)</b>	<b>(13,803,094)</b>
Tax on loss		-	-
<b>Loss for the financial year</b>		<b>(662,982)</b>	<b>(13,803,094)</b>
<b>Other comprehensive income for the year</b>			
Actuarial gains on defined benefit pension scheme	18	2,473,000	471,000
<b>Other comprehensive income for the year</b>		<b>2,473,000</b>	<b>471,000</b>
<b>Total comprehensive income for the year</b>		<b>1,810,018</b>	<b>(13,332,094)</b>


There were no recognised gains and losses for 2022 or 2021 other than those included in the statement of comprehensive income.

The notes on pages 14 to 25 form part of these financial statements.

SWISCO LIMITED  
REGISTERED NUMBER:12213029  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2022

	Note	2022 £	2021 £
<b>Fixed assets</b>			
Tangible assets	8	4,163,110	4,690,554
<b>Current assets</b>			
Stocks	9	270,785	243,615
Debtors: amounts falling due within one year	10	1,159,784	980,023
Cash at bank and in hand	11	1,157,437	811,109
		<u>2,588,006</u>	<u>2,034,747</u>
Creditors: amounts falling due within one year	12	<u>(3,629,524)</u>	<u>(3,523,920)</u>
<b>Net current liabilities</b>		<b>(1,041,518)</b>	<b>(1,489,173)</b>
<b>Total assets less current liabilities</b>		<b>3,121,592</b>	<b>3,201,381</b>
Creditors: amounts falling due after more than one year	13	(3,096,667)	(3,480,474)
Pension liability	18	(11,547,000)	(13,053,000)
<b>Net liabilities</b>		<b><u>(11,522,075)</u></b>	<b><u>(13,332,093)</u></b>
<b>Capital and reserves</b>			
Called up share capital	15	1	1
Profit and loss account	17	(11,522,076)	(13,332,094)
		<u>(11,522,075)</u>	<u>(13,332,093)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



Kevin Paul Mowat  
Director

Date: 22/11/2022

The notes on pages 14 to 25 form part of these financial statements.

SWISCO LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2022

	Called up share capital	Profit and loss account	Total equity
	£	£	£
<b>At 1 April 2020</b>	<b>1</b>	<b>-</b>	<b>1</b>
Loss for the year	-	(13,803,094)	(13,803,094)
Actuarial gains on pension scheme	-	471,000	471,000
<b>At 1 April 2021</b>	<b>1</b>	<b>(13,332,094)</b>	<b>(13,332,093)</b>
Loss for the year	-	(662,982)	(662,982)
Actuarial gains on pension scheme	-	2,473,000	2,473,000
<b>At 31 March 2022</b>	<b>1</b>	<b>(11,522,076)</b>	<b>(11,522,075)</b>

The notes on pages 14 to 25 form part of these financial statements.

**SWISCO LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2022**

	2022 £	2021 £
<b>Cash flows from operating activities</b>		
Loss for the financial year	(662,982)	(13,803,094)
<b>Adjustments for:</b>		
Depreciation of tangible assets	742,177	444,716
Loss on disposal of tangible assets	6,733	36,400
Interest paid	166,125	121,397
(Increase) in stocks	(27,170)	(243,615)
Decrease/(increase) in debtors	91,238	(975,239)
Increase in creditors	48,315	2,711,360
Increase in amounts owed to the council	-	366,000
Pension service charge and interest	696,000	563,000
Pension liability transferred in	-	12,961,000
Gifts from public benefit entities	-	(376,480)
<b>Net cash generated from operating activities</b>	<b>1,060,436</b>	<b>1,805,445</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(248,856)	(647,175)
Sale of tangible fixed assets	27,391	12,350
<b>Net cash from investing activities</b>	<b>(221,465)</b>	<b>(634,825)</b>
<b>Cash flows from financing activities</b>		
Repayment of/new finance leases	(326,518)	(238,115)
Interest paid	(8,803)	(1,525)
HP interest paid	(157,322)	(119,872)
<b>Net cash used in financing activities</b>	<b>(492,643)</b>	<b>(359,512)</b>
<b>Net increase in cash and cash equivalents</b>	<b>346,328</b>	<b>811,108</b>
Cash and cash equivalents at beginning of year	811,109	1
<b>Cash and cash equivalents at the end of year</b>	<b>1,157,437</b>	<b>811,109</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	1,157,437	811,109
	<b>1,157,437</b>	<b>811,109</b>

The notes on pages 14 to 25 form part of these financial statements.

**SWISCO LIMITED**

**ANALYSIS OF NET DEBT  
FOR THE YEAR ENDED 31 MARCH 2022**

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	At 1 April 2021 £	Cash flows £	At 31 March 2022 £
Cash at bank and in hand	811,109	346,328	1,157,437
Finance leases	(3,922,250)	326,518	(3,595,732)
	<u>(3,111,141)</u>	<u>672,846</u>	<u>(2,438,295)</u>

The notes on pages 14 to 25 form part of these financial statements.

## SWISCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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#### 1. GENERAL INFORMATION

SWISCO Limited is a private company, limited by shares, incorporated in England, United Kingdom. The address of the registered office is Town Hall, Castle Circus, Torquay, Devon, United Kingdom, TQ1 3DR. The principal activity of the Company is to provide services to the local council.

#### 2. ACCOUNTING POLICIES

##### 2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

##### 2.2 GOING CONCERN

Following the initial period of trading in 2020/21, SWISCO successfully moved to a sustainable funding model with the Council that enables the company to achieve a surplus. Before the technical accounting adjustments required by FRS 102, the company recorded a profit for 2021/22.

The Council have committed to provide the company with appropriate support to enable them to meet all liabilities as they fall due for a period of at least 12 months from the approval of these financial statements, whilst the company continues to improve its net current liability position under the new funding model. In light of this, the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

##### 2.3 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

###### Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2. ACCOUNTING POLICIES (continued)

2.4 OPERATING LEASES: THE COMPANY AS LESSEE

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.5 FINANCE COSTS

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.6 PENSIONS

DEFINED CONTRIBUTION PENSION PLAN

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

DEFINED BENEFIT PENSION PLAN

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets at the reporting date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

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2. ACCOUNTING POLICIES (continued)

2.6 PENSIONS (CONTINUED)

b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

2.7 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2.8 DEPRECIATION

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	- 5 to 15 years
Plant and machinery	- 3 to 8 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.9 STOCKS

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.10 DEBTORS

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

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2. ACCOUNTING POLICIES (continued)

2.12 CREDITORS

Short-term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 PROVISIONS FOR LIABILITIES

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the reporting date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

**FRS102 Pension valuation**

The FRS102 pension valuation for the Local Government Pension Scheme is conducted by an actuary and the assumptions drawn from the actuarial report impact SWISCO Limited's share of the pension liability. The estimation of the pension liability is based on a variety of external economic factors which change from year to year.

SWISCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

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4. TURNOVER

An analysis of turnover by class of business is as follows:

	2022 £	2021 £
Cyclical	13,701,554	8,079,625
Ordered	1,989,863	1,320,733
External	2,988,570	1,482,677
Additional Torbay Council funding	-	500,000
	<u>18,679,987</u>	<u>11,383,035</u>

All turnover arose within the United Kingdom.

5. OTHER OPERATING INCOME

	2022 £	2021 £
Other operating income	-	376,480
	<u>-</u>	<u>376,480</u>

6. OPERATING LOSS

The operating loss is stated after charging:

	2022 £	2021 £
Depreciation	247,176	496,462
Auditors' remuneration	15,000	15,000
Other operating lease rentals	316,000	235,918
(Profit)/loss on sale of tangible assets	6,733	36,400
	<u>634,909</u>	<u>827,780</u>

SWISCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

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7. EMPLOYEES

Staff costs were as follows:

	2022	2021
	£	£
Wages and salaries	7,461,834	4,678,896
Social security costs	642,522	403,755
Cost of defined benefit scheme	1,303,180	814,819
Cost of defined contribution scheme	140,082	82,517
	<u>9,547,618</u>	<u>5,979,987</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2022	2021
	No.	No.
Asset and Streetscene	134	134
Overhead	14	10
Waste and Recycling	133	114
	<u>281</u>	<u>258</u>

The total compensation paid to key management personnel during the year was £254,106 (2021: £115,209).

SWISCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

8. TANGIBLE FIXED ASSETS

	Long-term leasehold property £	Plant and machinery £	Total £
<b>COST OR VALUATION</b>			
At 1 April 2021	315,175	4,803,845	5,119,020
Additions	40,045	208,811	248,856
Disposals	-	(69,080)	(69,080)
At 31 March 2022	<u>355,220</u>	<u>4,943,576</u>	<u>5,298,796</u>
<b>DEPRECIATION</b>			
At 1 April 2021	35,756	392,710	428,466
Charge for the year on owned assets	54,287	149,652	203,939
Charge for the year on financed assets	-	538,237	538,237
Disposals	-	(34,956)	(34,956)
At 31 March 2022	<u>90,043</u>	<u>1,045,643</u>	<u>1,135,686</u>
<b>NET BOOK VALUE</b>			
At 31 March 2022	<u>265,177</u>	<u>3,897,933</u>	<u>4,163,110</u>
At 31 March 2021	<u>279,419</u>	<u>4,411,135</u>	<u>4,690,554</u>

9. STOCKS

	2022 £	2021 £
Finished goods and goods for resale	<u>270,785</u>	<u>243,615</u>

10. DEBTORS

	2022 £	2021 £
Trade debtors	273,196	421,570
Other debtors	10,988	4,784
Prepayments and accrued income	875,600	553,669
	<u>1,159,784</u>	<u>980,023</u>

**SWISCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022**

**11. CASH AND CASH EQUIVALENTS**

	2022 £	2021 £
Cash at bank and in hand	<u>1,157,437</u>	<u>811,109</u>

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2022 £	2021 £
Trade creditors	621,552	714,712
Amounts owed to associates	366,000	366,000
Other taxation and social security	520,190	448,164
Obligations under finance lease and hire purchase contracts	499,065	441,776
Other creditors	157,024	91,087
Accruals and deferred income	1,465,693	1,462,181
	<u>3,629,524</u>	<u>3,523,920</u>

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2022 £	2021 £
Net obligations under finance leases and hire purchase contracts	<u>3,096,667</u>	<u>3,480,474</u>

**14. HIRE PURCHASE AND FINANCE LEASES**

Minimum lease payments under hire purchase fall due as follows:

	2022 £	2021 £
Within one year	499,065	441,776
Between 1-5 years	2,229,668	2,042,783
Over 5 years	866,999	1,437,691
	<u>3,595,732</u>	<u>3,922,250</u>

**SWISCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022**

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**15. SHARE CAPITAL**

	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>ALLOTTED, CALLED UP AND FULLY PAID</b>		
1 Ordinary shares share of £1.00	<b>1</b>	<b>1</b>

**16. DEFERRED TAXATION**

The deferred tax asset relating to the defined benefit pension scheme and trading losses during the year has not been recognised as there is no certainty over making profits in the short term. The value of the deferred tax asset is £2,874,465 (2021: £2,526,595).

**17. RESERVES**

**Profit and loss account**

The profit and loss reserve reflects cumulative profits and losses net of distributions to shareholders.

**SWISCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022**

**18. PENSION COMMITMENTS**

The Company operates a Defined benefit pension scheme.

The company operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £747,261 (2021: £432,336). Contributions totalling £64,819 (2021: £62,310) were payable to the fund at the balance sheet date and are included in creditors.

The pension cost and provision for the year ended 31 March 2022 are based on the advice of a professionally qualified actuary.

Reconciliation of present value of plan liabilities:

	2022 £	2021 £
<b>RECONCILIATION OF PRESENT VALUE OF PLAN LIABILITIES</b>		
At the beginning of the year	28,001,000	-
Current service cost	1,294,000	811,000
Interest cost	571,000	255,000
Actuarial gains/losses	(1,582,000)	559,000
Employee contributions	160,000	100,000
Benefits paid	(501,000)	(26,000)
Previously unrecognised surplus deducted	-	26,302,000
<b>AT THE END OF THE YEAR</b>	<b>27,943,000</b>	<b>28,001,000</b>

Reconciliation of present value of plan assets:

	2022 £	2021 £
At the beginning of the year	14,948,000	-
Interest income	309,000	132,000
Employer contributions	598,000	376,000
Employee contributions	160,000	100,000
Benefits paid	(501,000)	(26,000)
Administration expenses	(9,000)	(5,000)
Return on assets less interest	891,000	1,030,000
Assets related to staff transferred in	-	13,341,000
<b>AT THE END OF THE YEAR</b>	<b>16,396,000</b>	<b>14,948,000</b>

SWISCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022

18. PENSION COMMITMENTS (CONTINUED)

	2022 £	2021 £
Fair value of plan assets	16,396,000	14,948,000
Present value of plan liabilities	(27,943,000)	(28,001,000)
<b>NET PENSION SCHEME LIABILITY</b>	<b>(11,547,000)</b>	<b>(13,053,000)</b>

The amounts recognised in profit or loss are as follows:

	2022 £	2021 £
Current service cost	(1,294,000)	(811,000)
Interest on obligation	(571,000)	(255,000)
Interest income on plan assets	300,000	127,000
Net liabilities transferred in	-	(12,961,000)
<b>TOTAL</b>	<b>(1,565,000)</b>	<b>(13,900,000)</b>

The Company expects to contribute £558,000 to its Defined benefit pension scheme in 2023.

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2022 %	2021 %
Discount rate	2.55	2.05
Future salary increases	4.15	3.85
Future pension increases	3.15	2.85
Inflation assumption	3.15	2.85
Mortality rates (years)		
- for a male aged 65 now	22.70	22.60
- at 65 for a male aged 45 now	24	24
- for a female aged 65 now	24	23.90
- at 65 for a female member aged 45 now	25.4	25.40



**SWISCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2022**

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**19. RELATED PARTY TRANSACTIONS**

**Owed to parent**

During the year transactions with Torbay Council were as follows: turnover through the statement of comprehensive income totalled £15,691,417 (2021: £9,900,359). Expenditure totalled £1,555,553 (2021: £908,932).

Included within debtors are balances owed from Torbay Council amounting to £218,758 (2021: £494,568).

Included within creditors are balances owed to Torbay Council amounting to £897,537 (2021: £1,680,286).

**Owed to fellow subsidiaries**

Included within debtors are balances owed from Torbay Economic Development Company amounting to £Nil (2021: £2,017).

Included within creditors are balances owed to Torbay Economic Development Company amounting to £2,927 (2021: £1,931)

Included within debtors are balances owed from KAH Holdings amounting to £Nil. (2021: £36)

**20. CONTROLLING PARTY**

Torbay Council is the immediate and ultimate parent undertaking the financial statements are available from its Registered Office at Town Hall, Castle Circus, Torquay, Devon, United Kingdom, TQ1 3DR.