Notice of Meeting

Governance & Audit Committee
Councillor Allen (Chair),
Councillor Wade (Vice-Chair),
Councillors Brossard, Gbadebo, Mrs Hayes MBE, Heydon, Leake and Parker

Wednesday 25 January 2023, 7.30 pm
Council Chamber - Time Square, Market Street, Bracknell, RG12 1JD

Agenda

All councillors at this meeting have adopted the Mayor's Charter which fosters constructive and respectful debate.

Item	Description	Page
1.	**Apologies for Absence**	
	To receive apologies for absence and to note the attendance of any substitute members.	
2.	**Declarations of Interest**	
	Members are asked to declare any disclosable pecuniary or affected interests in respect of any matter to be considered at this meeting. Any Member with a Disclosable Pecuniary Interest in a matter should withdraw from the meeting when the matter is under consideration and should notify the Democratic Services Officer in attendance that they are withdrawing as they have such an interest. If the Disclosable Pecuniary Interest is not entered on the register of Members interests the Monitoring Officer must be notified of the interest within 28 days. Any Member with an affected Interest in a matter must disclose the interest to the meeting. There is no requirement to withdraw from the meeting when the interest is only an affected interest, but the Monitoring Officer should be notified of the interest, if not previously notified of it, within 28 days of the meeting.	
3.	**Minutes of previous meeting**	3 - 6
	To approve as a correct record the minutes of the meetings of the Committee held on 19 October 2022.	
4.	**Urgent Items of Business**	
	Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.	
5.	**External Audit: Audit Progress Report**	7 - 8

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	To advise Members of the progress in completing the audit of the 2020/21 and 2021/22 financial statements. **Reporting:** Stuart McKellar	
6.	**Internal Audit Update**	9 - 30
	To receive an update on progress on the annual Internal Audit Plan. **Reporting:** Sally Hendrick	
7.	**Treasury Management Report 2023/24 and 2022/23 Mid-Year Review**	31 - 60
	To receive a report updating Members on progress in 2022/23 and to review the Treasury Management Report for 2023/24. **Reporting:** Stuart McKellar	
8.	**Exclusion of Public and Press**	
	To consider the following motion: That pursuant to Section 100A of the Local Government Act 1972, as amended, and having regard to the public interest, members of the public and press be excluded from the meeting for the consideration of the following item which involves the likely disclosure of exempt information under the following category of Schedule 12A of that Act: (3) Information relating to the financial or business affairs of any particular person.	
9.	**Counter Fraud Update**	61 - 68
	To receive an update on fraud cases and counter fraud activity since April 2021. **Reporting:** Sally Hendrick	

Sound recording, photographing, filming and use of social media is permitted. Please contact Hannah Harding, 01344 352308, Hannah.harding@bracknell-forest.gov.uk, so that any special arrangements can be made.

Published: 17 January 2023

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GOVERNANCE & AUDIT COMMITTEE
19 OCTOBER 2022
7.30 - 8.09 PM

Bracknell Forest Council

Present:
Councillors Allen (Chair), Wade (Vice-Chair), Brossard, Mrs Hayes MBE, Heydon and Leake

Apologies for absence were received from:
Councillors Gbadebo

15. **Declarations of Interest**

There were no declarations of interest.

16. **Minutes of previous meeting**

RESOLVED that the minutes of the meeting of the committee held on the 20 July 2022 be approved as a correct record.

17. **Urgent Items of Business**

There were no urgent items of business.

18. **Strategic Risk Update**

Sally Hendrick, Head of Audit and Risk Management, presented the updated Strategic Risk Register.

The Strategic Risk Register was reviewed every quarter by Strategic Risk Management Group, prior to review by CMT. This had happened in August and September 2022 with the following changes being agreed:

- Increase of Finance risk due to inflationary pressures and increased demand on social care and special needs education services.
- The inclusion of a risk around refugees.

Following the Committees comments and questions, the following point were made:

- The finance and economic risk had increased over the last 3 months, this was shown by the upwards arrow in the diagram.
- The finance and economic risk included contractual matters.
- In terms of cyber risk cover, it was explored previously, and a compressive exercise undertaken. However, cover was not offered, which was a national issue, with insurers cautious around risk in that area and nervous in the market. A proposal had come forward but was withdrawn.
- The Council were working with organisations who would be able to help in the event of a cyber-attack and respond to any incidents.

- The Council had tight cyber controls.
- The Council was often under cyber-attacks on a daily basis, and this was common throughout the public sector nationwide.

It was noted by the Committee that the Finance and Economic risk had increased due to a number of factors.

RESOLVED that the Committee to provide feedback to CMT on the strategic risk register.

19. **Internal Audit Update**

Sally Hendrick, Head of Audit and Risk Management, presented the Internal Audit Update. This was a quarterly update and covered progress from April to the end of September.

There had been some delay in progressing the 22/23 Audit Plan due to resourcing pressures and a number of audits brought forward due to covid, particularly audits in schools where access during the pandemic had been limited. One of the external providers had also limited their number of days provide, which had also hindered resourcing capacity. The external inspection of Children's Services had also resulted in a backlog of audits in this area. However, in order to strengthen the team's capacity and resources interviews had taken place for an apprentice within the team, however this was at the early stages.

It was raised that there had been a historic issue with actions from audits not being completed which had led to duplication of works, therefore a recommendation tracker had been introduced as a database for management to maintain and update to ensure actions are addressed and completed, which should reduce the number of repeat partial assurances. This had been a large piece of work to complete with the database covering audit actions dating back to 2019.

A summary of the outcome of finalised and audits with reports issued in draft were set out within the report at 3.6, a well as the number of grants issued.

There was a summary of identified high priority recommendations, many of which had already been identified by managers, with some asking for the audits to be undertaken such as SEND and the Permanency Planning.

Arising from the Committee comments and questions, the following points were made:

- Thanks was given for implementing the colour coding on the audits, CMT had previously asked for this to be removed.
- Clarification was being sought from directorates in regard to which of the remaining audits were required this year and which could be deferred, however Sally was not overly concerned and felt that a corner was being turned and better progress was being made.
- The external provider had now offered 25 days in quarter 4.
- A number of the audits were normally completed in quarter 4.
- There were a large number of audits in progress.
- It was suggested that a "this time last year" column be included within the report.
- There was little engagement with the external auditors, and they didn't put much reliance on the work of the internal auditors.
- The Welfare Team would add the penalty to any benefit investigation.

- DWP would flag issues to the Welfare Team in some instances, and adjustments would be made accordingly.
- It was very difficult for the questionnaire to be completed and due to the resource pressures, chasing responses hadn't been a high priority.
- It could be said to DMT that the Committee make the questionnaire mandatory.
- During 2021/22 the grants through the revenue team had added additional pressure, this would have been reported in the audit opinion for the previous year.

The Committee noted the update on progress on the Internal Audit Plan for 2022/23.

20. **Councillor Code of Conduct - Update**

The Borough Solicitor, Sanjay Prashar, provided an update to the Committee on the cursory amendments to the existing Code of Conduct for Councillors and Co-opted Members which had been agreed by the Code of Conduct Working Group.

The current Code of Conduct had been in place since 2012. In January 2020 the Committee for Standards in Public Life included a best practice recommendation for local authorities to the adopt a Code of Conduct based on a model produced by the Local Government Association (LGA) to adopt with or without amendments should authorities choose to do so.

In January 2022 the Code of Conduct Working group of Bracknell Forest Council Councillors convened to consider whether the Council should adopt the Model Code in whole, in part or alternatively retain the existing Code.

The Working group expressed general satisfaction with the Council's existing Code but suggested a few cursory amendments:
(i) redraft the Code in first person,
(ii) reference the Mayor's Charter and
(iii) include a link to the LGA Guidance

The amendments were drafted by the Borough Solicitor and agreed at a meeting with the Chair of the Working Group and the Assistant Director Democratic & Registration Services, which were then circulated to members of the Working Group in July for final approval.

As a result of the Committee's comments and questions, the following points were made:

- The gifts and hospitality allowance would remain at £25 and not increase to £50 as recommended by the LGA.

RECOMMENDED that Council approve the changes to the Councillor Code of Conduct as set out in Appendix C of the Borough Solicitor's report and agree to the constitution being amended accordingly.

CHAIRMAN

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(ITEM)

TO: GOVERNANCE AND AUDIT COMMITTEE
25 January 2023

EXTERNAL AUDIT: AUDIT PROGRESS REPORT
(Executive Director: Resources)

1 PURPOSE OF REPORT

1.1 This report advises Members of the progress in completing the audit of the 2020/21 and 2021/22 financial statements.

2 SUPPORTING INFORMATION

2.1 Financial Statements for 2020/21

2.1.1 In accordance with the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Amendment) Regulations 2021), draft accounts were required to be signed by the 31 July 2021 and audited by the 30 September 2021. The Executive Director: Resources signed the draft 2020/21 Statement of Accounts on 28 May 2021. The accounts were then made available on the Council's website.

2.1.2 It was not possible to meet the 30 September deadline due to delays in the completion of the audit of Royal County of Berkshire Pension Fund by Deloitte LLP. A revised Assurance Letter is still awaited by our auditors from Deloitte and until this is forthcoming it will not be possible to finalise the audit of the Council's financial statements.

2.1.3 Despite further communications between the two auditors a revised Assurance Letter is not expected to be issued until the audit of the Royal Borough of Windsor and Maidenhead's (RBWM's) main accounts have been completed. Currently this is still ongoing and may take several months to complete.

2.2 Financial Statements for 2021/22

2.2.1 In accordance with the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Amendment) Regulations 2022), draft accounts were required to be signed by the 31 July 2022 and audited by the 30 November 2022. The Executive Director: Resources signed the draft 2021/22 Statement of Accounts on 22 June 2022.

2.2.2 The audit of RBWM's 2021/22 accounts, both main and pension fund, is not expected to commence until summer 2023. Without assurances on the pension fund this Council's audit cannot be completed. In addition to this, there are a number of areas of audit EY still needs to complete on Bracknell Forest's accounts. It is likely that some of these areas may not be completed until next financial year.

Contacts for further information

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To: Governance and Audit Committee
25th January 2023

Internal Audit Update
Head of Audit and Risk Management

1 Purpose of Report

1.1 This report presents the update on progress on the annual Internal Audit Plan.

2 Recommendations

2.1 To note the update on progress on the Internal Audit Plan for 2022/23.

3 Reasons for Recommendations

3.1 To ensure the Council complies with statutory requirements for internal audit.

4 Alternative Options Considered

4.1 There are no alternatives.

5 Supporting Information

Internal Audit

5.1 Delivery of the Council's internal audit services in 2022/23 are being delivered as follows:

- One permanent in-house senior auditor who left the Council on retirement on 2 January 2023;
- One temporary senior auditor;
- Two apprentices who joined us at the end of November;
- Wokingham Council's Business Assurance team delivering internal audit services under a S113 agreement; and
- TIAA Ltd who will undertake IT audit.

5.2 Progress against the 2022/23 Internal Audit Plan is set out in Appendix 1. There has been some delay in progressing the 22/23 Audit Plan due to:

- Audits brought forward from 2021/22 and delays in finalising these;
- Difficulties in recruiting permanent senior auditors which we are now addressing through the recruitment and appointment of two internal audit apprentices;
- The external inspection of Children's Services resulting in a backlog of audits in this area; and
- Wokingham Council's Business Assurance Team reduced capacity for assisting with our audits in the first half of 2022/23.

6 Consultation and Other Considerations

Legal Advice

6.1 There are no specific legal implications arising from the recommendations in this Report.

Financial Advice

6.2 There are no financial implications arising from this report.

Equalities Impact Assessment

6.3 Not applicable.

Strategic Risk Management Issues

6.4 A robust internal audit service is essential for ensuring proper processes are in place for effective control.

Background Papers
Internal Audit Plan 2022/23
Internal Audit Charter

Contact for further information
Sally Hendrick, Head of Audit and Risk Management - 01344 352092

Bracknell Forest Council

BRACKNELL FOREST COUNCIL

HEAD OF AUDIT AND RISK MANAGEMENT'S INTERIM REPORT

DECEMBER 2022

Sally Hendrick
Head of Audit and Risk Management
Sally.Hendrick@bracknell-forest.gov.uk
01344 352092

1.BACKGROUND

1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control." This report summarises the activities of Internal Audit for the period April to December 2022 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:

- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council's interests.
- Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor's audit of the annual accounts.
- Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities.
- Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.

2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council's operations called the Head of Internal Audit Annual Opinion. The different categories of recommendation and assurance opinions are set out in the following tables.

2.3 We categorise our **audit opinions** according to our assessment of the controls in place and the level of compliance with these controls as set out below. It should be noted that from 1 April 2022 we have renamed our second level assurance category from adequate to satisfactory to better reflect the positivity of this level of opinion.

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Satisfactory - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non- compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in priority.

	Partial - there are areas of weakness and/or non- compliance with control which put the system/process objectives at risk and undermine the system's overall integrity. Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations.
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

2.4 We categorise our recommendations according to their level of priority as set out below:

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

3.1 The Annual Internal Audit Plan for 2022/23 was considered and approved by the Governance and Audit Committee on 23rd March 2022. The delivery of the individual audits during 2022/23 is being undertaken by

- One permanent in-house senior auditor who left the Council on 2 January 2023;
- Two apprentices who joined on 28 November 2022;
- One temporary senior auditor;
- Wokingham Council's Business Assurance team delivering internal audit services under a S113 agreement; and
- TIAA Ltd who will undertake IT audit.

3.2 The resources available for internal audit are finite, recruitment of the internal audit apprentices was delayed and our permanent senior audit left the Council on 2 January 2023. A number of 2021/22 audits were brought forward into 2022/23. Wokingham Council's Business Assurance Team had reduced capacity for assisting with our audits for the first half of 2022/23. In addition, some audits had to be delayed due to the external inspection of Children's Services and we now have a backlog of audits in this area. These factors have had a knock-on effect for the start of some 2022/23 audits and the audit plan was reviewed with DMTs to re-prioritise

audits for the current year with follow up audits on areas with a partial opinion plus mandatory grant certifications being prioritised.

3.3 Between April to December 2022, 6 grant audits and 17 reports/memos were finalised, 8 reports/memos were issued in draft awaiting management responses, 3 were in draft awaiting quality review and 8 audits were work in progress.

3.4 An audit recommendation tracker has been developed with the assistance of ICT to provide clearer management information on the status of actions to address significant weaknesses arising from audits. Audit are currently populating the tracker with all recommendations raised since 2019/20 and have agreed to pilot the tracker with People and Place, Planning and Regeneration prior to rolling it out in other areas.

3.6 Details on the status and outcome of all audits are attached at Appendix A. A summary of the outcome of finalised and audits with reports issued in draft are set out below.

2022/23 TO DATE ASSURANCE LEVELS	NUMBER OF AUDITS TO DATE	2021/22 ASSURANCE LEVELS	NUMBER OF AUDITS
Good	**0 (21/22:2)**	**Good**	**2**
Satisfactory	**10 (21/22:10)**	**Adequate**	**17**
Partial	**4 (21/22:5)**	**Partial**	**11**
Inadequate	**0 (21/22:2)**	**Inadequate**	**3**
No assurance	**0 (21/22:0)**	**No assurance**	**0**
Total for Audits with an Opinion	**14 (21/22:19)**	**Total for Audits with an Opinion**	**33**
Memos and reports with Major Recommendations/Observations and no Opinion	**4 (21/22:3)**	**Memos and reports with Major Recommendation and no Opinion**	**8**
Other Follow Up Memos/ Reports with no Opinion	**5 (21/22:2)**	**Other Follow Up Memos/ Reports with no Opinion**	**7**
Total Audits	**22 (21/22:24)**	**Total Audits**	**48**
Grant Certifications/Submissions	**6 (21/22:7)**	**Grant Certifications**	**5**
Overall Total	**29 (21/22:31)**	**Overall Total**	**53**

Identified High Priority Control Issues

3.7 Audits which have identified high priority recommendations will generally be revisited in 2023/24, to ensure successful implementation of agreed recommendations. The

audits where major and critical recommendations have been raised are set out below:

AUDITS WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED SINCE THE LAST UPDATE IN THE INTERNAL AUDIT INTREIM REPORT IN SEPTEMBER 2022		
• HOUSING BILLING	The audit was carried out at the request of the Executive Director: Resources who requested an advisory review of the current arrangements in place for billing and debt management of housing rental income. A major recommendation was raised to should consider the viability of using the housing system, Abritas system for recording rental income and debt.	Advisory review with one **Major** recommendation
• APPRENTICESHIP LEVY	One major recommendation has been raised due to the level of actual and forecast expired apprenticeship levy funds available to the Council to draw down and the need to improve provision of management information to CMT on progress against the scheme	Satisfactory opinion given overall but on one **Major** recommendation raised

SCHOOL AUDITS FOR GOVERNING BODIES WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED SINCE THE LAST UPDATE IN THE INTERNAL AUDIT INTREIM REPORT IN SEPTEMBER 2022		
• SCHOOL M	One major recommendation was raised due to weaknesses in purchasing procedures.	ASSURANCE OPINION: PARTIAL

Update of Previous Audits with High Priority Recommendations

3.8 As noted above, we are setting up the recommendation tracker to provide more accurate and timely management information on the implementation of recommendations and expect to report back on this to the Committee in January.

Summary of Internal Audit Performance

3.9 As shown below, two completed client questionnaires have been received for 2022/23 and in one case the auditees had complained about the time taken to complete the audit. For the draft 22/23 draft reports issued to date, the first draft report has been produced within 15 days of the exit meeting in 95% of instances.

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	

1st April to 30th September 2022	**2**	**50%**	**90%**
2021/22	**19**	**90%**	**68%**

4. PROGRESS ON INTERNAL CONTROL ENVIRONMENT 2022/23

4.1 It is still too early in the financial year and progression of audits to finalisation to make a reliable assessment on the direction of travel of the control environment. Progress to improve the control environment is being monitored based on the outcome of the audits undertaken and in particular identifying whether agreed management actions for areas previously found to have significant control weaknesses have been implemented as this has been a key factor in the Head of Audit and Risk Management's annual opinion on the control environment for the last 4 years.

5. RISK MANAGEMENT

5.1 The Strategic Risk Register has already been reviewed three times by the Strategic Risk Management Group (SRMG) in May, August and November 2022 and twice by the Corporate Management Team in September 2022 and January 2023 following SRMG review. Directorate risk registers continue to be updated quarterly.

APPENDIX 1

2021/22 INTERNAL AUDIT PLAN OUTCOMES NOT PREVIOUSLY REPORTED

*Key indicator- Draft report issued within 15 days of exit meeting
"D"- deferred at management request from 21/22 to 22/23

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendation Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Emergency Duty Service IT Audit	07/03/22	16/06/22	✓		✓					3	5	Final report
Forestcare IT Audit	21/03/22	30/06/22	✓			✓			1	6	1	Final report
DSPT	21/03/22	05/08/22	✓	Not applicable. Review of organisation self-assessment.								Final report
SEND	January 2022	23/06/22	✓	Not applicable, Advisory Memo					4	3		Final memo
School G follow up	June 2022	18/07/22	✓	Not applicable, follow up review.						4		Final memo
School K follow up	June 2022	20/06/22	✓	Not applicable, follow up review.						2		Final memo

2022/23 INTERNAL AUDIT PLAN

1.GOVERNANCE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	inadequate	Critical	Major	Moderate	Low	
Data indicators	April 2022	30/06/22	✓			✓			3	4	3	Final report issued
Project management of O&S reviews and subsequent												Quarter 4 audit

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	inadequate	Critical	Major	Moderate	Low	
action plan implementation												
Recording of decisions												Audit deferred at management request
Complaints Process follow up (partial assurance opinion 2021/22)												Work in progress
CCTV follow up (partial assurance opinion 2021/22)												Audit deferred to Quarter 4 at request of management
IR 35												Audit deferred at management request
SARs												Audit deferred at management request to 2023/24
Grant Certifications ~~Business Covid Support Grants, quarter 1 and quarter 3~~												Management advised that no audit assurance required on this.
Bus Service Operator	August 2022	27/9/22	✓	N/A – grant certification								Certified
DOH Weight management allocation												Timing not specified
Troubled Families –	20/9/22	22/9/22	✓	N/A – grant submission								Audit completed for payment by

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	inadequate	Critical	Major	Moderate	Low	
September submission												results submission
Troubled Families – December submission	20/12/22	28/12/22	✓	N/A – grant submission								Audit completed for payment by results submission
Troubled Families – March submission												Not due
Test & Trace Support Payments	July 2022	29/07/22	✓	N/A – grant certification								Certification complete
COMF	July 2022	11/07/22	✓	N/A – grant certification								Certification complete
Universal Drug Treatment	July 2022	27/07/22	✓	N/A – grant certification								Certification complete

2. COUNCIL WIDE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Amazon Business Card												Audit deferred at management request
Debt management												Work in progress

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Income invoicing												Quarter 4 audit
Town Centre Maintenance Planning	Late September 2022	11/1/23	✓		✓					1	3	Draft report issued
Business Continuity	June 2022	30/9/22	X		✓					6	1	Draft report issued
Housing Billing (NEW audit added at S151 officer request)	September 2022	1/12/22	✓	N/A- Advisory memo with no opinion					1	9	1	Draft report issued

3. RESOURCES

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Staff establishment costs (Joint HR and Finance audit budgeted under OD, Transformation and HR)												Work in progress
Apprenticeship Levy advisory audit	3/10/22	1/12/22	✓		✓				1	5	1	Draft report issued

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Council Tax and Business Rates	20/12/22											Work in progress
Supplier payments	20/12/22											Work in progress

4. IT AUDIT

IT AUDIT	Start Date	Date of Draft Report	Key Indicator Me*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
~~ICT Supplier Management (Software Product Usage, Licensing and Cloud Services~~												Audit cancelled at management request
Intranet Controls	1/12/22											Draft report received for client side
~~Windows Virtual Desktop Review)~~												Audit cancelled at management request
~~Cyber Security – Incident Management and Resilience~~												Audit cancelled at management request
~~On-Line payments~~												Audit cancelled
SharePoint usage	12/9/22											Draft in for client side review

5. PLACE, PLANNING, AND REGENERATION

AUDIT	Start Date	Date of Draft Report	Key Indicator met	Assurance Level				Recommendation priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
~~Highways Reactive Maintenance~~												Agreed with management to defer to 23/24
Highways Adoptions												Quarter 4 audit
Tree service - follow up (partial assurance opinion 2021/22)												Quarter 4 audit
Street lighting follow up (partial assurance opinion 2019/20)	1/12/22											Work in progress
The Look Out	July 2022	26/08/22	✓		✓					4	4	Final Report Issued
Public Health	June 2022	15/9/22	✓		✓					5	2	Final Report Issued

6. CHIEF EXECUTIVE'S OFFICE

AUDIT	Start Date	Date of Draft Report	Key Indicator met*	Assurance Level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Business change support costs advisory review	June 2022	5/9/22	✓	Not applicable, Advisory Memo					1	2	3	Final memo issued

7. DELIVERY

AUDIT	Start Date	Date of Draft Report	Key Indicator met*	Assurance level				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Commercial properties Follow up (partial assurance opinion 2021/22	11/11/22											Draft report in for quality review
PPR follow up brought forward from 21/22												Deferred to Q1 of 23/34 at management request

8. PEOPLE

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Open Learning Centre												Work in progress
Services to Schools Follow up												Work in progress
~~SEND targeted reviews~~												Removed from plan as no longer required
Pupil Referral Unit												Deferred to 23/24
Transition children to adults												Quarter 4 audit
Children's social care placements	1/11/22											Draft report issued for discussion
Larchwood follow up												Deferred to 23/24

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
Permanency planning follow up	July 2022		✓	Not applicable, Advisory Memo					1	2		Final memo issued
Post Leaving Care	April 2022	16/08/22	✓		✓					3	3	Final report issued
~~Parenting assessments follow up~~												Management have requested this be deferred to 23/24
Recording of Direct work, including Youth Justice, MAKE Safe and Permanency hub												Deferred due to inspection and timing of the audit to be reviewed with management
Housing Benefit and Council Tax Reduction	June 2022	05/08/22	✓		✓					1	2	Final report issued
Housing allocations												Quarter 4 audit
Homelessness												Deferred at management request
Disabled Facilities Grants	May 2022	02/08/22	✓			✓			3	12		Final report issued
Transport in CTPLD- advisory piece	July 2022	30/11/22	✓	Not applicable, Advisory Memo						7	1	Draft report issued for discussion
Domiciliary Care												Quarter 4 audit
Direct payments-												Proposal for undertaking as a fraudit currently

AUDIT	Start Date	Date of Draft Report	Key Indicator Met*	Assurance levels				Recommendation Priority				Status
				Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	
advisory piece on fraud triggers												being discussed.

9. SCHOOLS

AUDIT	Start Date	Date of Draft Report	Key Indicator Met	Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	Status
School I (reaudit - Ltd 2018/19)	June 2022	20/07/22	✓			✓			3	7		Final report issued
School J follow up	June 2022	05/08/22	N/A	N/A follow up review						3		Final report issued
School D (re-audit inadequate 21/22)												Quarter 4 audit
School B (follow up partial 21/22)												Quarter 4 audit
School E (follow up partial 21/22)												Deferred to 2023/24
School H (follow up partial 21/22)												Quarter 4 audit
School R												Deferred at request of school
School O	7/11/22	16/1/23	X		✓					8	1	Draft report issued
School P	17/10/22	9/12/22	X		✓					6	2	Draft report issued
School N												Deferred at request of the School
School T												Quarter 4 audit

AUDIT	Start Date	Date of Draft Report	Key Indicator Met	Good	Satisfactory	Partial	Inadequate	Critical	Major	Moderate	Low	Status
School M	15/9/22	14/10/22	✓			✓			1	8	2	Final report issued
School S												Quarter 4 audit
School U												Quarter 4 audit
~~School Q~~												Audit cancelled as School academised

APPENDIX 2

2021/22 AUDITS IDENTIFYING SIGNIFICANT ISSUES		
AUDIT	**RATING**	**CURRENT AUDIT STATUS**
• Debt Management	**ADVISORY, HENCE NO OPINION BUT MAJOR OBSERVATIONS RAISED**	**To be re-audited in Qtr 4**
• Supplier Payments	**ADVISORY, HENCE NO OPINION BUT MAJOR OBSERVATIONS RAISED**	**Re-audit in progress**
• Complaints Process	**PARTIAL**	**To be followed up in Qtr 4**
• E+Card General & IT Controls	**PARTIAL**	**To be followed up in Qtr 4**
• Council Tax & Business Rates	**PARTIAL**	**Re-audit in progress**
• Tree Services	**PARTIAL**	**To be followed up in Qtr 3**
• Larchwood	**PARTIAL**	**To be followed up in Qtr 4**
• Services to Schools	**PARTIAL**	**Follow up in progress**
• Permanency Planning	**ADVISORY, HENCE NO OPINION BUT MAJOR OBSERVATIONS RAISED**	**Followed up in Q1 of 22/23 and a major recommendation has been re-raised. See appendix 1 above.**
• SEND	**ADVISORY, HENCE NO OPINION BUT MAJOR OBSERVATIONS RAISED**	**To be followed up with management in quarter 4**
• Supervision (ASC & Mental Health)	**ADVISORY, HENCE NO OPINION BUT MAJOR OBSERVATIONS RAISED**	**To be followed up with management in quarter 4**
• Agresso IT System Follow Up	**FOLLOW UP HENCE NO OPINION BUT MAJOR RECOMMENDATION RAISED**	**To be followed up with management in quarter 4**
• Cyber Liability Follow Up	**NO OPINION BUT MAJOR OBSERVATION RAISED**	**To be followed up as part of the Cyber Security Incident Management & Resilience Audit in 23/24**

2021/22 AUDITS IDENTIFYING SIGNIFICANT ISSUES		
AUDIT	**RATING**	**CURRENT AUDIT STATUS**
• Health & Social Care ICT Care System Integration	**PARTIAL**	**To be followed up in 2023/24**
• Forestcare General ICT Controls	**PARTIAL**	**To be followed up in 2023/24**
• School D	**INADEQUATE**	**To be re-audited in Qtr 4**
• School B	**PARTIAL**	**To be followed up in Qtr 4**
• School E	**PARTIAL**	**To be followed up in Qtr 4**
• School H	**PARTIAL**	**To be followed up in Qtr 4**

OTHER AUDITS AREAS WHERE SIGNIFICANT ISSUES IDENTIFIED PRE 21/22 WERE STILL OUTSTANDING AT 30/08/22	CURRENT AUDIT STATUS
• Adult Social Care Pathway (Qtr 4 2017/18 Audit)	To be followed up with management in quarter 4
• Public Health	Public Health re-audited in quarter 3 but too early to follow up major issue identified at the last audit.
• Disabled Facilities Grants	Re-audited in quarter 1 22/23. Partial opinion provided. See appendix 1 above.
• ICT Continuity Management	Followed-up under the business continuity audit. All major recommendations have been addressed apart from access to business continuity plans all issues . Three moderate recommendations were found to be outstanding.

• Management of Essential Car User Allowances and Mileage	To be followed up with management in quarter 4
• Management of Commercial Properties	Follow-up completed and draft memo in for quality review
• Public Protection Partnership	To be followed up in quarter 1 of 23/24 at management request
• CCTV	To be followed up in quarter 4
• Street Lighting	Follow-up in progress
• Domiciliary Care	To be re-audited in Qtr 4
• Parenting Assessments	To be followed up in 23/24 at the request of management.

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TO: GOVERNANCE AND AUDIT COMMITTEE
25 JANUARY 2023

TREASURY MANAGEMENT REPORT 2023/24 AND 2022/23 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer-term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within their TMSS/AIS reports from 2023/24.

1.5 The Council is updating its Capital Strategy and the new prudential indicator and these will be included in the final Treasury Management Strategy Statement published in March 2023.

1.6 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.7 This report seeks to achieve both these requirements of updating Members on progress in 2022/23 and to review the Treasury Management Report for 2023/24.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report in Annex A for 2023/24 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2022/23
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23

Economic Update

5.2 Whilst the Council is in no longer debt-free the level of internal resources has enabled the Council to avoid any new external borrowing since 2018. However, given the economic conditions over the last 5 years returns on surplus cash have been historically low leading into 2022/23. This prolonged period of low global interest rates changed markedly from April 2022 onwards, with central banks around the world increasing rates. This has led to the highest UK Base Rate for over 13 years, with the Bank Rate now sitting at 3.5% and expected to move higher over the coming months.

5.3 The coronavirus outbreak wrought huge economic damage to the UK and to economies around the world with the Bank of England (BoE) taking emergency action in March 2020 to cut the Bank Rate to 0.10%. There were however increasing grounds for viewing the nascent economic recovery as running out of steam during 2022 with the potential for stagflation creating a dilemma for the Monetary Policy Committee (MPC) as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

5.4 A number of events came to dominate both global and domestic economies over the last 12 months. Supply chain difficulties continued to force prices higher, and with an exceptionally tight labour market, inflation continued to rise in 2022. These problems were overshadowed by the war in Ukraine which has had a tumultuous impact on energy prices around the world. The Consumer Prices Index (CPI), the government preferred indicator of inflation, rose to over 10% - a 40 year high – forcing the BoE to begin a series of Bank Rate increases.

5.5 In August 2022 the MPC increased Bank Rate to 1.75%, with a further rise in September to 2.25%. As a result of political events in Westminster, a new government was formed and brought forward a step change in government policy

aimed at delivering faster growth in the UK economy by cutting taxes in addition to supporting the intense energy pressures faced by the public. Unfortunately, the UK Treasury did not follow normal practices and the Fiscal Event was published without an analysis by the Office for Budget Review (OBR) and the economic markets took fright at the amount of unfunded tax cuts and future borrowing requirements. The market turmoil that followed led to a spike in market borrowing rates and a substantial fall in the pound. This led to the formation on a new Government and almost all the measures reversed in the proceeding weeks.

5.6 As such, whilst domestic factors have largely been unravelled, the UK still faces historically high inflation, a substantial risk of recession and the potential for further economic shocks from global insecurity, a resurgence of COVID limiting impacts on growth and general financial-market risk. This led the MPC to raise interest rates to 3% in November and to 3.5% in December 2022.

5.7 In terms of current market views, the central forecast for interest rates was updated on 19 December and reflects a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023. Increases in the base rate of this magnitude will clearly benefit the Council if it can continue to rely on internal resources to fund its Capital Programme and offers the potential for higher investment returns.

Treasury Management Strategy Statement Review

5.8 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the Council on 24th February 2022. There are no policy changes to the TMSS in 2022/23

Review of Investment and Debt Portfolio 2022/23

5.9 The Council held £25.544m of investments as at 31 December 2021 and the investment portfolio yield for the first nine months of the year is 3.13% against a benchmark (SONIA) of 3.18%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	6,497	3.16
Black Rock	1 Day	400	3.01
Federated	1 Day	2,190	3.25
Federated Cash Plus	2 Day	2,000	3.52
Goldman Sachs	1 Day	50	2.97
Deutsche	1 Day	9,997	3.15
Fixed Maturity	6 Months	3,000	3.20
Total Investments		**25,544**	

5.10 The 2022/23 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. This was based on an assumption that the MPC would hold rates at low levels to support the nascent economic recovery. However, as noted above, events over the last 10 months have resulted in an unanticipated sharp rise in rates beyond anything that was foreseen 12 months

ago. As such the return on investments and the level of income reported through Budget Monitoring will be substantially above that budgeted.

5.11 As at 31 December 2021 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
NIL	0			
	0			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2022/23

5.12 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2022/23 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2023/24

5.13 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.14 The attached Treasury Management Report 2023/24 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 13 December 2022 and outlines the Council's Prudential Indicators for 2023/24 to 2025/26 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 22 February 2023.

6 Consultation and Other Considerations

Legal Advice

6.1 The Treasury Management Activities by local authorities must have regard to the CIPFA Code of Practice.

Financial Advice

6.2 The financial implications are contained within the report.

Other Consultation Responses

6.3 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in January 2023.

Equalities Impact Assessment

6.3 None.

Climate Change Implications

6.4 The recommendations in Section 2 above will have no immediate impact on emissions of CO_2.

Background Papers

None

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TREASURY MANAGEMENT REPORT

1.1 The Local Government Act 2003 requires the Council to "have regard to" the 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.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.5 CIPFA defines treasury management as:

"The management of the local 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."

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Council published its Capital Strategy in 2019. It has been reviewed by officers and will be updated for 2023/24 to be reviewed by Governance and Audit Committee before being published. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.6 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.7 There are no substantial changes to the Treasury Strategy to be adopted in 2023/24. CIPFA's proposed changes to the Prudential Code have sparked a great deal of debate in the local government sector, with the Local Government Association requesting that their introduction be held back, pending further clarifications being formally issued. As a consequence, the proposed changes, particularly those potentially impacting on existing commercial property holdings, are not yet cast in the Code as it currently stands. The Council is, however, complying with proposed new requirement to split the Capital Financing Requirement into assets held for service purposes and others held for investment purposes, which is purely presentational and adds transparency.

1.8 The Treasury Management Strategy for 2023/24 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and

- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

The Capital Prudential Indicators 2023/24 – 2025/26

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity and reflects the outcome of the Council's underlying capital appraisal systems. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2023/24 to 2025/26 complements these indicators.

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

The Capital Expenditure Plans
The Council's capital expenditure plans are summarised below, and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors such as the impact of the wider economy.

The Council is asked to approve the summary capital expenditure projections below.

Capital Expenditure	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Capital Expenditure	12,293	6,286	5,547
Commercial Activities	0	0	0
Financed by:			
Capital receipts	2,250	2,000	2,000
Capital grants & Contributions	5,866	3,270	3,270
Net financing need	**4,177**	**1,016**	**277**

The Council's Borrowing Need (the Capital Financing Requirement)
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Financing Requirement				
CFR – services	137,009	145,233	146,700	143,632
CFR - Commercial activities/ non-financial investments	84,591	84,055	83,507	83,331
Total CFR	**221,600**	**229,288**	**230,207**	**226,964**
Movement in CFR	**7,875**	**7,688**	**919**	**-3,243**
Movement in CFR represented by				
Net financing need for the year (above)	5,484	4,741	-2,201	-6,387
Less MRP/VRP and other financing movements	2,391	2,947	3,120	3,143
Movement in CFR	**7,875**	**7,688**	**919**	**-3,243**

The net financing need for the year includes expenditure related to budgets approved in prior years in addition to the new capital expenditure approved in 2023/24.

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

Minimum Revenue Provision (MRP) Policy Statement

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP)

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers "prudent". The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

Further statutory guidance on MRP was issued by Government on 2 February 2018, which largely becomes effective from 1 April 2019. The exception related to the section allowing local authorities to change their approach to calculating MRP at any time, which took effect immediately. A key part of the updated guidance clarified that the duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.

In order to minimise the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of borrowing, the Council moved from the equal instalments method to the annuity method in calculating the annual charge over the estimated life of the asset from 1st April 2017. A variety of options are provided to councils under the regulations and guidance, so long as there is a prudent provision. Having sought advice from Counsel on permissible approaches following the revised guidance, the Executive Director:Resources recommends that Council approves the following MRP Statement.

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

  Based on CFR – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases but excluding CPIS expenditure) the MRP policy will be:

  Asset life method - MRP will be based on the annuity basis, in accordance with the regulations. Repayments included in annual PFI or finance leases are applied as MRP.

- For assets purchased under the Commercial Property Investment Strategy (CPIS) the MRP policy will be:

  Partial deferral method – MRP will be charged at 10% of the property value over a 15 year period to reflect a realistic level of value risk, on the basis that the properties will typically be held for a period of no greater than around 10 to 20 years.

- For all other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) and there is a strong likelihood that this will happen, the MRP policy will be:

  Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset or loan repayments from third parties

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.

The actual charge made in the year will be based on applying the above policy to the previous year's actual capital expenditure and funding decisions. Therefore the 2023/24 charge will be based on 2022/23 capital out-turn.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2023 the total VRP overpayments are expected to be £2.081m.

TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

The Council's debt and investment projections;
The Council's estimates and limits on future debt levels;
The expected movement in interest rates;
The Council's borrowing and investment strategies;
Treasury performance indicators;
Specific limits on treasury activities;

Debt and Investment Projections 2023/24 – 2025/26
The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

	2023/24 Estimated	2024/25 Estimated	2025/26 Estimated
External Debt			
Debt at 31 March	£80m	£85m	£90m
Investments			
Investments at 31 March	£15m	£10m	£10m

Current Portfolio
The overall treasury management portfolio as at 31 March 2022 and for the position as at 31st October 2022 are shown below for both borrowing and investments

	Actual	Actual	Current	Current
	31/03/22	31/03/22	31/10/22	31/10/22
Treasury Investments	£000	%	£000	%
Money Market Funds	43,488	100	27,591	100
External Borrowing	£000	%	£000	%
Local Authorities	0	0	0	0
PWLB	80,000	100	80,000	100
Net Treasury Borrowing	36,512		52,409	

Limits to Borrowing Activity
Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Executive Director:Resources reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt
A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	£230m	£235m	£240m
Other long term liabilities	£20m	£20m	£20m
Total	£240m	£255m	£260m

Operational Boundary for External Debt
The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same

estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	£235m	£240m	£245m
Other long term liabilities	£20m	£20m	£20m
Total	£255m	£260m	£265m

Borrowing in advance of need.
The Executive Director:Resources may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Executive Director:Resources will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

The Council's treasury advisor, Link Asset Services has provided the following forecast:

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Whilst the Council is in no longer debt-free the level of internal resources has enabled the Council to avoid any new external borrowing since 2018. However, given the economic conditions over the last 5 years returns on surplus cash have been historically low leading into 2022/23. This prolonged period of low global interest rates changed markedly from April 2022 onwards, with central banks around the world increasing rates. This has led to the highest UK Base Rate for over 13 years, with the Bank Rate now sitting at 3% and expected to move higher over the coming months.

The coronavirus outbreak wrought huge economic damage to the UK and to economies around the world with the Bank of England (BoE) taking emergency action in March 2020 to cut the Bank Rate to 0.10%. There were however increasing grounds for viewing the nascent economic recovery as running out of steam during 2022 with the potential for stagflation creating a dilemma for the Monetary Policy Committee (MPC) as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

A number of events came to dominate both global and domestic economies over the last 12 months. Supply chain difficulties continued to force prices higher, and with an exceptionally tight labour market, inflation continued to rise in 2022. These problems were overshadowed by the war in Ukraine which has had a tumultuous impact on energy prices around the world. The Consumer Prices Index (CPI), the government preferred indicator of inflation, rose to over 10% - a 40 year high – forcing the BoE to begin a series of Bank Rate increases.

In August 2022 the MPC increased Bank Rate to 1.75%, with a further rise in September to 2.25%. As a result of political events in Westminster, a new government was formed and brought forward a step change in government policy aimed at delivering faster growth in the UK economy by cutting taxes in addition to supporting the intense energy pressures faced by the public. Unfortunately, the UK Treasury did not follow normal practices and the Fiscal Event was published without an analysis by the Office for Budget Review (OBR) and the economic markets took fright at the amount of unfunded tax cuts and future borrowing requirements. The market turmoil that followed led to a spike in market borrowing rates and a substantial fall in the pound. This led to the formation on a new Government and almost all the measures reversed in the proceeding weeks.

As such, whilst domestic factors have largely been unravelled, the UK still faces historically high inflation, a substantial risk of recession and the potential for further economic shocks from global insecurity, a resurgence of COVID limiting impacts on growth and general financial-market risk. This led the MPC to raise interest rates to 3% in November 2022.

In terms of current market views, pricing for December's meeting remains at 3.5% with markets continuing to expect the BoE to hike rates to 4.0% by February 2023 and to finish the year close to 4.75%. Increases in the base rate of this magnitude will clearly benefit the Council if it can continue to rely on internal resources to fund its Capital Programme and offers the potential for higher investment returns.

Investment and borrowing rates

- **Investment returns** are expected to continue to improve in 2023/24. However, while markets are pricing in a series of further Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations, but will need to balance the risk of continued higher inflation or a prolonged recession.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England however the economic conditions highlighted above reflect a different path in borrowing rates is now in place. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years and indeed the gap between investment rates and borrowing rates support this policy to be continued.

Borrowing Strategy 2023/24

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Executive Director:Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession as a result of COVID or other economic risks), then any long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an increase in world economic activity or a further spikes in inflation risks, then the portfolio position will be re-appraised.

The current and short-term economic conditions place considerable challenges on the Council's treasury activities. With considerable cash-balances the Council is clearly benefitting from the steep increase in investment rates, however this is matched by steadily rising borrowing rates which the Council may need to face in the near term. The cost of carry (the difference between borrowing and investment rates) is currently prohibitive at present and as such a policy of using internal resources whilst available is deemed to be the most appropriate. Any decisions will be reported to the Executive at the next available opportunity.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt rescheduling

In this period of uncertainty and historically wild swings in gilt prices over such a short period of time, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Executive, at the earliest meeting following its action.

Investment Strategy 2023/24 – 2025/26

Investment Policy

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. Lending and transaction limits, (amounts and maturity), for each counterparty will be set through applying the matrix table shown under the Council's creditworthiness policy

6. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

7. All investments will be denominated in sterling.

Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£10m	6 months
Local authorities	n/a	£7m	1 yr
Money Market Funds (CNAV,LVNAV & VNAV)	AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m	liquid

The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2023/24 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations
Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Executive Director:Resources may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements
Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management costs for next year per £m. However as all borrowing is fixed any increase in rates will only impact on new borrowing.

	2023/24 Estimated + 1% per £m	**2023/24 Estimated - 1% per £m**
Revenue Budgets	**£'000**	**£'000**
Borrowing costs	100	100

Treasury Management Limits on Activity
There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2023/24	**2024/25**	**2025/26**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	£255m	£260m	£265m
Limits on variable interest rates based on net debt	£255m	£260m	£265m
Maturity Structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

Performance Indicators
The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2023/24 the relevant benchmark will relate only to investments and will be the Sterling Overnight Index Average (SONIA) The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers
The Council uses Link Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training was has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority (including Parish Councils) in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds CNAV, LVNAV, and VNAV *These funds do not have any maturity date*	No	Yes	*AAA Rating by Fitch, Moodys or S&P*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper *[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	*364 Days*
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 Years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*5 years*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating?**	**Circumstance of use**	**Maximum maturity of investment**
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*10 years including but also including the 10 year benchmark gilt*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	*5 years*
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*1 year*

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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