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Audit Committee

Wednesday, 6th December, 2023 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors: Mike Wood (Chairman)
Dennis Livingstone (Vice-Chairman)
Len Ellis-Brown
Anthony Frankland
Tony Hogben
Richard Landeryou
Belinda Walters

You are summoned to the meeting to transact the following business

Jane Eaton
Chief Executive

Agenda

		Page No.
1.	**Apologies for absence**	
2.	**Minutes**	3 - 6
	To approve as correct the minutes of the meeting held on 20 September 2023 *(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)*	
3.	**Declarations of Members' Interests**	
	To receive any declarations of interest from Members of the Committee	
4.	**Announcements**	
	To receive any announcements from the Chairman of the Committee or the Chief Executive	

5.	**Internal Audit - Quarterly Update Report** To consider the report of the Chief Internal Auditor *Members are asked to note the report and to consider if any further action is required in response to issues raised, and to identify potential items for inclusion in the internal audit plan.*	7 - 18
6.	**Annual Governance Statement Action Plan 2023/24** To receive an update on the progress against actions contained in the Annual Governance Statement	19 - 22
7.	**Risk Management - Quarterly Update** To receive the report of the Director of Resources *Members are asked to note the contents of the report.*	23 - 34
8.	**Treasury Management Activity and Prudential Indicators - Half year report** To consider the report of the Director of Resources *Members are asked to note the mid-year report and prudential indicators.*	35 - 44
9.	**Capital Strategy for 2024/25** To consider the report of the Director of Resources *Members are asked to vote on the recommendations in the report.*	45 - 74
10.	**Urgent Business** Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	

Audit Committee
20 SEPTEMBER 2023

Present: Councillors: Mike Wood (Chairman), Dennis Livingstone (Vice-Chairman), Richard Landeryou and Belinda Walters

Apologies: Councillors: Len Ellis-Brown, Anthony Frankland and Tony Hogben

AAG/16 **MINUTES**

The minutes of the meeting held on 12 July were approved as a correct record and signed by the Chairman.

AAG/17 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations of interest.

AAG/18 **ANNOUNCEMENTS**

The Chairman advised the Audit Committee that the Chief Internal Auditor Paul Miller was retiring after nearly three decades working for Horsham District Council. He thanked him for his hard work and commitment over the years and wished him well in his retirement.

AAG/19 **2021/22 ANNUAL AUDITOR'S REPORT**

The Chairman invited Elizabeth Jackson, partner at Ernst & Young to introduce the external auditor report for 2021/22.

The committee were advised that the 2021/22 Annual Auditors Report had been signed off on 15 August as planned and as reported at the July Audit Committee no weaknesses or significant risks had been identified.

Members were keen to gain clarity on the delay in auditing of 2022/23 accounts, lack of Audit Plan for 2022/23 and situation for auditing 2023/24 accounts in the future.

The committee were advised that Ernst & Young had paused all 2022/23 audits until guidance had been received from the Department for Levelling Up, Housing and Communities (DLUHC).

DLUHC along with the Financial Reporting Council (FRC) who regulate the audit market, are currently consulting all Councils and audit firms regarding Audit Plans and timeframes with the view to getting these aligned moving forward.
Consideration will also be given to dealing with audit backlogs and an agreed timetable.

The committee were advised that DLUHC had proposed some statutory backstop dates for publishing audited accounts however these were yet to be confirmed.
The proposed dates are:

- 2020/21 and 2021/22 audits 31/03/2024
- 2022/23 audit 30/09/2024
- 2023/24 audit 31/03/2025

Further guidance from DLUHC should be provided by the end of September and it is hoped that more information should be available at the next Audit Committee.

It was acknowledged that the current situation was frustrating for all involved and work was being undertaken to provide robust solutions moving forward.

AAG/20 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk Register for consideration and provided information on progress with the quarterly departmental risk register reviews.

It was reported that there had been no changes since the July Audit Committee where five risks were considered to be high:

CRR01b Funding from government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2025.

CRR17 The Housing Benefit Subsidy claim may be qualified and/or financial losses.

CRR38 Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Tech, but across the Council, leading to failure to achieve agreed business objectives.

CRR18 A malicious attacker exploits a known or unknown security weakness to penetrate the Council’s ICT systems.

IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.

CRR19 Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

Members discussed the housing benefit subsidy, rapidly rising inflation costs, ongoing lower levels of income and ICT infrastructure risks.
The Director of Resources advised the committee that the Council is constantly trying to identify risks and improve processes and feedback was always welcomed.

RESOLVED

Members noted the contents of the report.

AAG/21 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Director of Resources presented the report from the Chief Internal Auditor which provided a progress report of internal audits carried out during Quarter 1 of 2023/24 (1 April 2023 – 30 June 2023).

The two audits finalised during the quarter related to follow ups for Private Sector Housing Assistance Grants and Land Charges and both received an opinion of 'substantial assurance'.

Members noted the contents of the report.

AAG/22 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 6.09 pm having commenced at 5.30 pm

CHAIRMAN

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Report to Audit Committee

6 December 2023
By the Horsham Chief Internal Auditor

INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 2

Executive Summary

To provide Members with an update on all internal audit and counter-fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan together with an update on the performance of the internal audit service during the period.

Recommendations

The Committee is recommended to:

- Note the report and consider any further action required in response to the issues raised.
- Identify any new or emerging risks for consideration for inclusion in the internal audit plan.

Reasons for Recommendations

i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).

ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's systems of internal control.

Background Papers

Internal Audit Strategy and Annual Plan 2023-24.

Wards affected: All.

Report Author: Reem Burton, Horsham Chief Internal Auditor
Contact Details: Russell Banks, Orbis Chief Internal Auditor, 07824 362739
Reem Burton, Horsham Chief Internal Auditor, 07866 925290

Background Information

1 Introduction and Background

Background

1.1 This progress report covers work completed during the second quarter of 2023/24.

Supporting Information

1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2023-24, which was approved by the Audit Committee on 29 March 2023.

2 Relevant Council Policy / Professional Standards

2.1 The Accounts and Audit (England) Regulations 2015 state that: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". This responsibility is discharged through the Orbis Internal Audit team.

2.2 The Council's Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed annually by the Audit Committee".

2.3 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

3 Details

3.1 Key audit findings from final reports issued are summarised in Appendix A.

3.2 Five audits were finalised during the quarter, one of which received an opinion of 'substantial assurance', and four received an opinion of 'reasonable assurance'.

3.3 Formal follow-up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Progress on action tracking is provided in Section 3 of Appendix A.

3.4 Flexibility is built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify new and emerging risks but would also welcome input from Members. Details of those reviews added and removed from the plan this year are set out in Section 4 of Appendix A.

3.6 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in Section 5 of Appendix A.

4 Next Steps

4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2023/24.

5 Outcome of Consultations

5.1 Heads of Service / Service Managers are consulted during each audit. At the end of each review, audit findings are discussed with the relevant Head(s) of Service at a final meeting, and actions are agreed. An action plan is incorporated into the final report including details of responsible officers and agreed implementation dates. There are occasions where a director may also be consulted, particularly for audits that span a number of departments.

6 Other Courses of Action Considered but Rejected

6.1 Not applicable.

7 Resource Consequences

7.1 This report summarises information about the work undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

8 Legal Considerations and Implications

8.1 There are no legal considerations or implications. Where legal compliance issues are identified during audit fieldwork, the Head of Legal & Democratic Services (or relevant legal specialist) will be consulted.

9 Risk Assessment

9.1 All Internal Audit work is undertaken using a risk-based approach.

10. Procurement implications

10.1 There are no procurement implications arising from this report as this report is for noting.

11. Equalities and human rights implications / public sector equality duty

11.1 There are no implications under equalities and human rights or the public sector equality duty as this report is for noting.

12. Environmental implications

12.1 There are no environmental implications as this report is for noting.

13. Other Considerations

13.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

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Appendix A

Internal Audit and Counter Fraud

Quarter 2 Progress Report 2023/24

CONTENTS

1. Summary of Completed Audits

Print Procurement

1.1 The Council does not have an in-house print room. Instead, print work is procured by inviting quotes from a framework of a pre-determined list of suppliers or through the Dynamic Purchasing System (DPS). In 2022/23, expenditure on external printing contracts was just under £162k.

1.2 The purpose of this audit was to provide assurance that:

- All expenditure is made in compliance with the Contract Procedure Rules and is subject to approval in accordance with delegated levels of authority; and
- Conflicts of interest are managed, and procurement decisions are made in the interests of the Council.

1.3 We identified two areas where improvements could be made: to provide further guidance on the intranet for staff, which has since been published; and to monitor compliance with the framework and DPS, which is currently being addressed.

1.4 Based on the work carried out, we were able to provide an opinion of **Reasonable Assurance**, as all officers involved with print procurement in 2022/23 had completed declarations of interest to ensure transparency regarding potential conflicts of interest. Further, compliance with the Contract Procedure Rules was evident, with suppliers invited to tender for the work, which was approved in accordance with delegated levels of authority.

Fleet Management Follow-up

1.5 The Council has a fleet of 66 road going assets that are required to be maintained, run efficiently, and within budget. The purpose of this audit was to follow up on the agreed actions from the 2022/23 audit, for which we gave an opinion of Partial Assurance.

1.6 The control objectives from the original review were:

- There is an overarching, strategic fleet management plan in place, and this links with the strategic objectives of the organisation;
- Robust arrangements are in place, and working effectively, regarding the acquisition and disposal of fleet vehicles;
- Policies and procedures on the management and use of the fleet vehicles are adequate and these are followed at a departmental level; and
- There is compliance with the national legislative requirement concerning fleet management.

1.7 As part of our follow up, we have obtained the necessary evidence to confirm that all four actions agreed during the previous review had been fully implemented. Therefore, we were able to provide a revised opinion of **Substantial Assurance** over the controls operating within the service.

Bar & Catering Follow-up

1.8 We completed an audit of the Bar and Catering at the Capitol Theatre in 2022/23, for which we provided an opinion of Minimal Assurance as a result of control weaknesses being identified in relation to stock control, income processes, and staff training and guidance. The purpose of this audit was to follow up on the agreed actions to confirm the control environment had been improved. Testing did not include controls that were found to be satisfactory during the previous review.

1.9 The control objectives from the original review were:

- All income due is received and banked appropriately;
- Assets are appropriately safeguarded; and
- Secure arrangements are in place to manage cash handling processes.

1.10 We were pleased to note that the control environment had been strengthened, including through appropriate recording of reconciliations for the cash float and refunds, and the introduction of separation of duties in relation to financial and stock processes.

1.11 Only two actions remained to be implemented, with revised dates agreed with management. These related to improving the process for stock checks and reducing wastage, and reviewing health and safety training to ensure it can be delivered online or in-person. As a result of the improvements made, we were able to issue an opinion of **Reasonable Assurance** over the controls in place.

Volunteers

1.12 Unison defines volunteers as "members of the public who give their time freely to a task without financial recompense, volunteers do not have a contract of employment and therefore they do not have rights to which employees or workers are entitled."

1.13 Our audit considered the controls in place for managing individuals who volunteer for the Council and sought to obtain assurance that:

- There are clear policies and procedures in place in relation to the use of volunteers;
- Induction and training are provided to volunteers, including performance monitoring to ensure roles and responsibilities are known and defined;
- Risk assessments are comprehensive and completed with a specific focus on health and safety arrangements for volunteers; and
- The Council has adequate Public Liability Insurance (PLI) that covers all necessary eventualities in relation to volunteers.

1.14 Through our review, we identified a number of areas of good practice, including clear policies and procedures regarding volunteers, due diligence checks being completed prior to volunteers starting, and sufficient PLI that covers volunteers while they are carrying out Council business.

1.15 We did, however, identify areas for improvement, including the need to:

- Establish and agree a process for volunteer expenses;
- Provide training for engaging/recruiting volunteers and the documentation that should be retained as part of this; and
- Remind managers of the risk assessment process for all volunteers and training record requirements for volunteers who regularly undertake work for the Council.

1.16 Management have agreed actions to address these findings as well as two additional, low risk findings where implementation represents good practice. Overall, we were able to provide an opinion of **Reasonable Assurance**.

Cyber Security – Response & Resilience

1.17 Cyber resilience is the ability of an organisation to protect, detect, respond, and recover from cyber-attacks. Through being resilient, organisations have the ability to reduce the impact of an attack and ensure that they are able to continue to operate effectively.

1.18 The purpose of this audit was to provide assurance that:

- Incident response processes and procedures are executed and maintained, to ensure a timely response to cyber-attacks;
- The Council understands the cybersecurity risk to operational activities and mitigates for them accordingly; and
- Response and recovery activities are improved through the incorporation of lessons learned for future incidents.

1.19 We found that appropriate steps have been taken to ensure that the Council and its services are resilient and able to respond to the loss of IT services. Robust business continuity arrangements are in place, promoting resilience to a cyber-attack, and scenarios of IT loss various levels have been considered. Further, in-person cyber security training has been provided to officers and Members, and a new cyber awareness training system is being implemented.

1.20 There is an Information Security Policy in place, which includes a risk rated incident response plan outlining specific action to take in the event of a cyber incident. Whilst the response plan appears to be robust, there have not been any incidents that required it to be initiated, and it has not been subject to testing.

1.21 Overall, we were able to provide an opinion of **Reasonable Assurance** regarding the Council's cyber security resilience.

2. Counter Fraud and Investigation Activities

National Fraud Initiative (NFI)

2.1 Internal Audit has been working with relevant departments to ensure that data matches received in January 2023 as part of the biennial NFI exercise are being investigated and actioned appropriately.

2.2 To date, no instances of fraud have been identified. Checks relating to council tax reductions against pensions and payroll changes have revealed 16 errors, resulting in the ongoing recovery of £8,793.

Fraud Risk Assessments

2.3 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat to the Council has been considered, and appropriate mitigating actions identified.

Counter-Fraud Strategy and Framework

2.4 Horsham DC has in place a Counter Fraud Strategy that sets out its commitment to preventing, detecting, and deterring fraud.

3. Action Tracking

3.1 All high priority actions agreed with senior management as part of individual audit reviews are subject to action tracking. As at 31 October 2023, 100% of high priority actions due had been implemented within agreed timescales.

3.2 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high or medium priority actions that are overdue, and an update on progress with high priority actions will continue to be reported to this committee.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the Internal Audit plan for the year is kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk.

4.2 Following discussions with management, the following audit has been removed from the 2023/24 audit plan and will be considered for inclusion in the 2024/25 audit plan as part of the overall risk assessment completed during the annual audit planning process:

Planned Audit Work	Rationale for Postponement / Removal
Taxi Licensing	This audit has been deferred from the current plan to enable the implementation of service changes by the new lead officer.

4.3 The following review has been added to the 2023/24 audit plan:

Planned Audit Work	Rationale for Addition
Alcohol Licensing	This audit will be carried out as part of the current plan in lieu of the deferred audit, as above.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April 2023	G	Approved by Audit Committee on 29 March 2023
	Annual Audit Report and Opinion	By end July 2023	G	2022/23 Annual Report and Opinion approved by Committee on 12 July 2023
	Customer Satisfaction Levels	90% satisfied	G	100% satisfaction for surveys received in the period
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	Annual: 90%	A	At Q2, we had achieved delivery of 35% of the annual plan to draft report stage (against a pro-rata target of 45%). This is largely due to staff changes, and measures are in place to bring the plan back on track. Delivery of the audit plan for 2023/24 is not considered to be at risk at this time.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as: • **Excellent** in: - Reflection of the Standards - Focus on performance, risk and adding value • **Good** in: - Operating with efficiency - Quality Assurance and Improvement Programme • **Satisfactory** in: - Coordinating and maximising assurance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	97%[1]

[1] Includes part-qualified staff and those in professional training

Orbis Internal Audit

Appendix B

Audit Opinions and Definitions

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

APPENDIX E:
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2023/24

No.	Area for Improvement	Actions	Responsible Officer	Target Date	Status update
1a	Constitution involving approval of charity / not for profit reductions and discounts, as well as all decision thresholds.	Review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2023	We now have a policy in place for these initiatives re car parking concessions, so this is complete.
1b	Wider review of the Constitution	Review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2024	A Governance peer challenge is provisionally booked in during February 2024, which will help feed into the wider review of the constitution.
2	Earlier engagement with procurement across the Council, to improve the process and reduce the number of procurement exemptions.	Further training and Procurement advice. Formal procurement sign-off built into the online exemption process.	Head of Procurement Digital Communications Manager	30/09/2023 30/06/2023	Further training planned for early January 2024. This work is completed

3	New Procurement Regulations.	Review and revise framework as appropriate and provide training to officers.	Procurement Manager / Head of Legal and Democratic Services	31/12/2024	Procurement Act delayed until October 2024. Training planned once contents of the Act have been confirmed and Bill has received Royal Assent.
4	Roll out of tracking and sign-off of Cabinet decision reports through Modern.gov. and report writing	The new Modern.gov process will be embedded so that it operates effectively.	Head of Legal and Democratic Services	29/02/2024	Should be complete by end of February following the Managers' Forum. The CFO and MO will check that their comments have been included in reports once they are published online.
5	The Council's management of bullying and harassment.	Dignity at Work will be embedded into the culture of the organisation.	Head of HR & OD; Head of Strategic Planning; Head of Leisure & Culture; and the Head of Economic Development	31/12/2023	The target date can only be a beginning of that process, as culture change is not achievable within 3 months. We have launched a Dignity at Work policy and have well established Grievance and Disciplinary processes, plus a 'Whistleblowing' procedure. The policy is also supported by a related new Equality-and-Inclusion-Policy-and-Procedure. Training for managers on equality issues has been delivered and is on-going. There are generic B&H learning packages on the council's Learning Stream, and we are exploring how that can support a better understanding of our policies and what is expected of all employees. Such training should be mandatory and be supplemented through newsletter style communications and team briefings, to start before the target date and this item can then be reported as completed at that stage. Fully embedding such a policy into our culture is difficult to measure and to put an end date. However, the council has not had a single bullying and harassment claim for several years and therefore it seems that Dignity at Work

					already has a broad acceptance and adherence within the workforce.
6	Raise awareness, enhance understanding, and ensure compliance with PSED (Public Sector Equality Duty).	Enhancing understanding of and providing training in relation to the organisation's public sector equality duty to ensure general compliance	All Heads of Service	31/06/2024	An Equality Impact Assessment workshop was held on 1 November 2023 to raise awareness to Heads of Service and key report writers and budget holders. Further training will be held in 2024.

Report to Audit Committee

Horsham District Council

Date: 6 December 2023
By the Director of Resources

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews.

Recommendations

That the Committee is recommended to:

i) Note the contents of this report.

Reasons for Recommendations

As part of good governance, it is important that Members understand the key risks facing the Council.

Background Papers

Corporate Risk Register

Wards affected: All.

Contact: Dominic Bradley, Director of Resources dominic.bradley@horsham.gov.uk

Background Information

1 Introduction and Background

1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see Section 3 below).

2 Relevant Council Policy

2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:

- Fully integrate risk management into the culture of the Council and its strategic and service planning processes.
- Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned.
- Ensure the benefits of risk management are realised through maximising opportunities and minimising threats.
- Ensure consistency throughout the Council in the management of risk.

3 Details

3.1 The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).

3.2 The Corporate risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.

	CRR02 CRR03 CRR06 CRR34 CRR37	CRR18 CRR19		
		CRR01c CRR05	CRR01b CRR38	CRR17

3.3 There are five risks which are currently considered to be high and seven medium. The high-risk areas relate to the following:

CRR17	The Housing Benefit Subsidy claim may be qualified and/or financial losses.
CRR19	Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.
CRR01b	Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2025.
CRR38	Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Tech, but across the Council, leading to failure to achieve agreed business objectives.
CRR18	A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.

3.4 The risk register in Appendix 1 provides full details of all risks on the "live" register together with details of the control actions and responsible officers.

3.5 There have been no changes to the corporate risk register.

3.6 All 16 departmental risk registers have been reviewed and updated.

4 Outcome of consultations

4.1 Officers who are responsible for control actions and the Senior Leadership Team have been consulted in updating the Corporate Risk Register.

5 Other courses of action considered but rejected

5.1 Not applicable.

6 Resource consequences

6.1 There are no financial or staffing consequences as this report is for noting.

7 Legal considerations and implications

7.1 There are no legal consequences as this report is for noting.

8 Risk assessment

8.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 1 for the latest version of the Council's Corporate Risk Register.

9 Procurement implications

9.1 There are no procurement implications arising from this report as this report is for noting.

10. Equalities and human rights implications / public sector equality duty

10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

11 Environmental implications

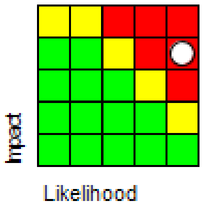
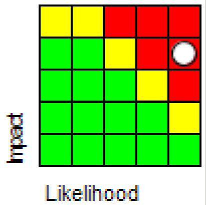
11.1 There are no environmental implications as this report is for noting.

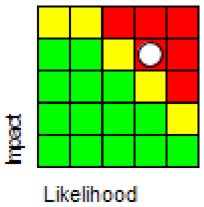
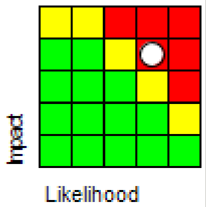
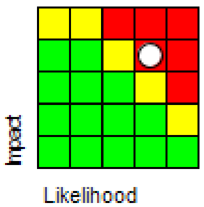
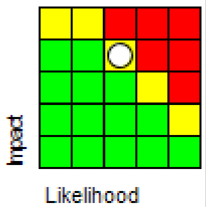
12 Other considerations

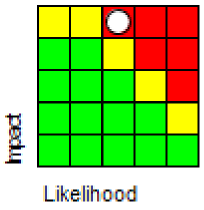
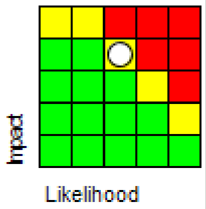
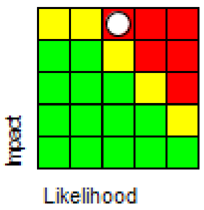
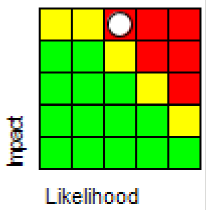
12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

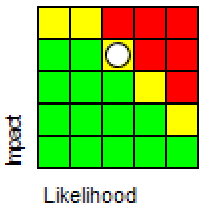
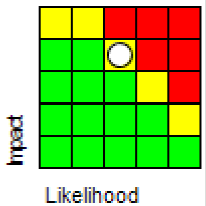
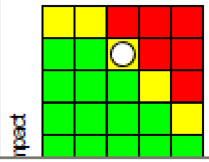
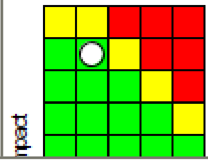
Appendix 1 Corporate Risk Report December 2023
Risks ordered by RAG not numerically.

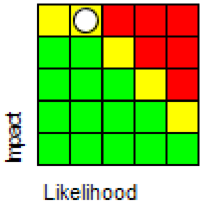
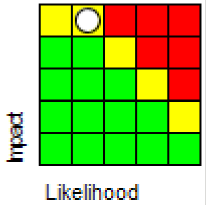
Generated 1/11/23

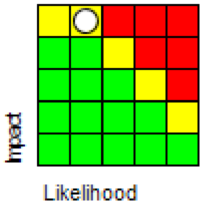
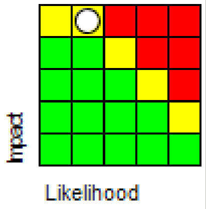
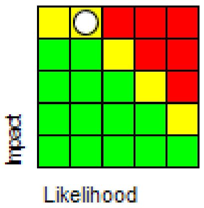
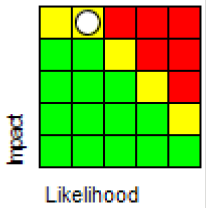
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR17 (473) Cause: The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors. Risk description The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances.	Financial Service Delivery Compliance with regulations Reputation	Dominic Bradley; Beccy Salmon		CRR.17.1 Continuously monitor the level of quality control checking	Beccy Salmon		Pressure has been building in the service since the outbreak of Covid-19. In 2021/22, the HB subsidy loss breached the lower (but not upper) threshold at a cost of £65,416. Subsequently, £15,301 was offset by the DWP through underlying entitlement. In 2022/23, a 0.58% Local Authority error rate breached the upper threshold of 0.54%. This means that the pre-audit position is at a cost of £122,925. As part of a commitment to continued service improvement, including staff development, 2022/23 and 2023/24 has seen an increased amount of quality assurance measures in year. These increased measures have also been a result of the issues identified in the 2021/22 audit. This has resulted in the increased identification of error at the pre-audit stage. Around 60% of the LA error identified in 2022/23 was legacy error carried forward from the CenSus partnership. The risk for 2023/24 is that errors and extrapolations identified in the audit increase the loss of subsidy further. The forecast LA error for 2023/24 at M6 is for a pre-audit figure below the lower threshold, but with little headroom, meaning the risk remains high as any error large or extrapolated error which would result in a further loss of subsidy.
				CRR.17.2 An earmarked reserve for subsidy provision is now in place that would cover the loss of subsidy in the event that the upper threshold in the subsidy claim is breached.	Beccy Salmon		

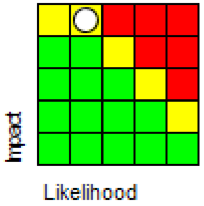
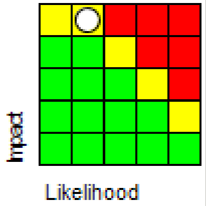
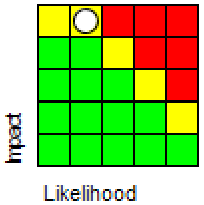
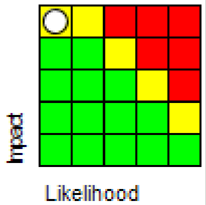
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR01b (467) Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g. Business Rates). <u>Risk</u>: (ii) Funding from Government is less generous than assumed in the MTFS from 2025	Reductions in funding Adverse effect on morale Financial Failure to achieve agreed objectives	Dominic Bradley		CRR.01b.1 Continue to keep a watching brief	Samantha Wilson		Government have finalised a two-year settlement for 2023/24 and 2024/25, which has reduced the risk of changes to business rates and revenue funding through the Fair Funding Review for the short term, albeit temporarily. For 2023/24, Council tax rises, higher investment income from the rise in the Bank of England base rate and some inflationary rises to fees have balanced the budget and mitigated the cost pressures from inflation and salaries. However, a £2m to £3m budget deficit is forecast at the end of the MTFS, when we implement food waste before March 2026 and / or spend our reserves without achieving a revenue return. The gap will only get larger if the funding cuts are sharper than anticipated.
				CRR.01b.2 Revisit the MTFS and if necessary 2023/24 budget in year.	Samantha Wilson		
				CRR.01b.3 Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g. Corporate Restructure, cuts to non-statutory services, investment and infrastructure projects that generate income.	Dominic Bradley		
CRR38 – (479) <u>Cause:</u> Linked to national shortage of labour in some sectors as well as experienced professionals leaving the public sector for retirement or better pay in the private sector. Capacity problems increase turnover and absence and adversely affect wellbeing and productivity levels. <u>Risk:</u> Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Tech. Failure to have resilience in the staff structure, and so lacking the right number of staff with the right skills to deliver services, along with unrealistic expectations of services, which could lead to service failure, reputational damage and potential litigation.	Adverse effect on morale Financial Failure to achieve agreed business objectives Compliance with regulations Complaints / claims / litigation Stress and absenteeism	Jane Eaton		CRR.38.1 workforce planning, training, and development, growing your own, leadership and management programmes, apprenticeships, coaching, supporting skills and qualifications.	Robert Laban		Recruitment and retention in key services such as Legal, Building Control, Planning and Technology Services has resulted in locums and vacancies, resulting in delays in delivering workloads. Some service priorities are not being delivered as quickly as the Council would like. Capacity issues slow down delivery of the capital programme. Building Control now has three trainee posts filled, plus a further trainee lined up for September 2024. Three Head of Service recruitment campaigns are underway, with interviews scheduled for mid-November 2023.
				CRR.38.2 Efficient and effective recruitment processes, enhancing the employer brand, recruitment benefits, such as relocation package, flexible and hybrid working, market supplements and review of pay point spinal column.	Robert Laban		
				CRR.38.3 Regular staff survey to be undertaken and action plans progressed	Robert Laban		
				CRR.38.4 Review options for alternative solutions, e.g., investigating Horsham weighting allowance, increasing efficiencies in process and transformation through automation.	Dominic Bradley		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR18 (474) Technological Cause: Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses. Risk Description Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. Risk 2: IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.	Loss of key systems- disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.	Dominic Bradley		CRR.18.1 Staff and Member Training	Claire Ward / Robert Laban		CRR.18.1 Ongoing, as part of induction for new staff/ Members, and as required. CRR18.2 We are following government advice re heightened Cyber Security Threats. CRR.18.5 PSN Accreditation is being worked on for 2024. CRR.18.7 Backups have been reviewed and improved. An internal audit in October 2023 gave Reasonable Assurance in respect of Cyber Security – Response & Resilience, identifying one medium issue to test the effectiveness of the Security Incident Procedure through a desk top exercise.
				CRR.18.2 Awareness of current threats	Andrea Curson		
				CRR.18.3 An effective ICT Service delivery team	Andrea Curson		
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson		
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson		
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson		
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson		
				CRR.18.8 Transferring the risks to the cloud provider	Andrea Curson		
				CRR.18.9 Plan developed, approved internally, and being carried out.	Andrea Curson		
CRR19 (475) Cause: Uncertainty in the UK and World economy. Higher levels of salary and non-salary costs from inflation. Impact on the financial markets and the pound in the wake of Covid-19 and the energy crisis. Likelihood of a recession and slowdown in the property and financial markets. The Government has spoken about a reduction in local government funding. Risk: Rapidly rising costs from	Financial Service Financial Service Delivery Compliance with Regulations	Dominic Bradley		CRR.19.2 Monitor the external environment	Samantha Wilson		The 2023/24 forecast outturn is a £0.38m deficit for the year at month 6. Rising inflation rates have increased cost pressures in utility and maintenance costs, HVO fuel and vehicle parts as well as increased staffing costs and increased housing demands. Lower levels of income are being felt in investment property rents as well as planning and building control as water neutrality restricts development. Pressure is also building on homelessness and benefits cases. These cost pressures are currently being partly offset by
				Monitor the external environment CRR.19.3 Monitor internal indicators, particularly costs from inflation, income generation and respond appropriately to adverse trends	Samantha Wilson		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
inflation. 6% inflation equates to a £1m increase in costs per year, making balancing the budget more difficult. Lower levels of income in planning fees; reduced car parking income; property income and Government funding. Increased costs from higher levels of homelessness and housing benefit claims.							additional income from our investment activities. Spending our reserves for social and wellbeing gain, without achieving a revenue return will increase the pressure over the medium term. Budget shortfalls of around £3m a year are forecast should we introduce a £1.5m p.a. 1,2,3 food waste collection.
CRR01c (468) Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g., Business Rates). <u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.	Reductions in funding Financial	Dominic Bradley		CRR.01c.1 Continue to keep a watching brief CRR.01c.2 Evaluate and discuss with Members possible actions to mitigate loss of income. e.g., investment and infrastructure projects that generate income.	Samantha Wilson Samantha Wilson		Government have finalised a two-year settlement for 2023/24 and 2024/25, which has reduced the risk of changes to business rates and revenue funding through the Fair Funding Review for the short term, albeit temporarily. For 2023/24, Council tax rises, higher investment income from the rise in the Bank of England base rate and some inflationary rises to fees have balanced the budget and mitigated the cost pressures from inflation and salaries. A similar balanced budget is targeted in 2024/25. However, a £2 to £3m at the end of the MTFS, largely driven by inflation, implementing food waste collection and / or spend our reserves without achieving a revenue return. The gap will also only get larger if the funding cuts are sharper than anticipated.
CRR05 (471) Governance <u>Cause</u>: Managers are responsible for ensuring that controls to mitigate risks are consistently applied.	Failure of business objectives	Dominic Bradley		CRR.05.1 Officer training	Dominic Bradley		The Annual Governance Statement actions in the 2023/24 action plan are being implemented. Two were carried through from 2022/23 where progress was made, but are being embedded in 2023/24:

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<u>Risk</u>: Officers are either unaware of expected controls or do not comply with control procedures.	Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement Reputation damage			CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Dominic Bradley		- Training and roll out of tracking and report sign off through Modern.gov is in progress. - The Council's management of bullying and harassment is well underway, with training and workshops held, and policies updated, but the awareness and learning are not yet fully embedded. - Procurement training is being delivered to services. Procurement will see significant changes when the revised Procurement Act is introduced in 2024. The internal audit opinions issued to date in 2023/24 have either been substantial or reasonable. Three minor information breaches have occurred to the Council's third parties in 2023/24, which are being managed by the third parties.
				CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these.	Dominic Bradley		
				CRR.05.5 Programme of training and information to ensure all managers understand their roles.	Dominic Bradley		
CRR02 (469) Managerial / Professional <u>Cause</u>: The Council has a legal obligation to protect personal data. *The Information Commissioners powers are much more far reaching when they changed in May 2018 with the introduction of the GDPR (now UK GDPR).* <u>Risk 1</u>: Major data breach or leak of sensitive information to a third party. <u>Risk 2</u>: Risk of warnings, reprimands and enforcement notices for non-compliance by the ICO under the UK GDPR. Also, risk of significant fines in the most serious cases.	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage	Dominic Bradley		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Lauren Kelly		CRR02.3 An induction programme is established, and new staff are completing IS training as part of probation, where relevant. There will be regular updates and additional training provided where necessary, as and when topical issues emerge, in a fast-moving environment that poses IS threats. A refresher course on e-learning will be scheduled for early next year for all staff. CRR02.4 PSN Accreditation 2023 awarded. CRR.02.05 Due to minor personal data breaches and the risk of major ones, a Personal Data Breach Awareness presentation was delivered through Teams' meetings during Summer 2022 and refresher sessions continue annually. Member training was completed in Summer 2022 and updated during the election induction.
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson		
				CRR.02.5 Representatives from each department meet to maintain compliance, updates and training	Lauren Kelly		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR03 (470 Legal Cause: The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses. Risk: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.	People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Censure by regulators Reputation damaged	Dominic Bradley		CRR.03.1 Update corporate business continuity plan and regular review.	Robert Laban		CRR.03.1 Plan is up to date. All Neighbourhood Wardens have been trained as Rest Centre Managers and are earmarked for Incident Liaison Officer training later in the year to provide a tactical response at bronze level. Consideration is given to establish a process/ rota for senior managers to manage emergencies. CRR.03.2 All Business Continuity plans are up to date as of October 2023. CRR.03.2 All Business Continuity plans were updated in 2022/23. A sample was tested in Q4 with the service heads. CRR.03.5 Hybrid bitesize workshops are starting again from April for: Response, BC, Recovery, Rest Centre ops. Review of incidents for lessons learnt.
				CRR.03.2 Update departmental business continuity plans and regular review.	Robert Laban		
				CRR.03.5 Bitesize workshops to address new procedures and processes.	Robert Laban		
CRR06 (472) Physical Cause: The Council is responsible for the health & safety of its clients, staff, and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. Risk: A health & safety failure occurs.	People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Jane Eaton		CRR.06.2 H&S Management Forum reviews corporate inspection strategy quarterly.	Robert Laban / Health & Safety Officer		Risk assessments are being undertaken, reviewed, and updated. Refresher training on e-learning for all staff has been set for Fire Safety, starting in mid-November 2023. A Personal Safety of Staff and Lone Working audit (draft) has suggested Reasonable Assurance.
				CRR.06.3 Training programme includes annual refreshers on a rolling programme. All mandatory training must be completed as part of probation	Robert Laban		
				CRR.06.01 Risk assessments undertaken	Robert Laban / Health & Safety Officer		
				CRR.06.04 H&S Officer regularly reviews high risk areas	Robert Laban		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
CRR34 (477) Cause: Uncertainty in the UK and World economy. Instability and high-profile failures. Risk: Key contractor failure	Financial	Dominic Bradley		CRR.34.1 Regularly check accounts of key suppliers CRR.34.2 Check public liability insurance of key suppliers CRR.34.3 Ask for key suppliers' business continuity plans CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan	Heads of Service Heads of Service Heads of Service Heads of Service		The impact of the world shortage of building supplies remains uncertain. Risk of inflation, interest rate rise, and recession are being monitored. Some suppliers are starting to come forward to increase prices outside of the contract, which is being resisted. Key contracts are reviewed as part of the ongoing contact management arrangements and officers have been reminded to check the financial health of key suppliers and be ready for Plan B.
CRR37 (478) Source: Requirement to adopt an up-to-date Local Plan by end 2023 in accordance with government requirements Risk: Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.	Economic damage to district as a result of limits to development which can take place	Barbara Childs		CRR.37.1 Joint working with partners to develop water neutrality mitigation strategy CRR.37.2 Keep watching brief on government messaging on planning reforms	Catherine Howe Catherine Howe		A water mitigation strategy has been agreed (known as a Part C document) was agreed in November 2022. A water Neutrality project Manager is now in post and is developing the Sussex North Offsetting Water Neutrality Scheme (known as SNOWs). This work is ongoing. There are still significant resource implications to enable this scheme to become operational, but there is now sufficient evidence available to allow the Local Plan to progress to the Regulation 19 stage of consultation.

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Report to Audit Committee
6 December 2023
By the Director of Resources
INFORMATION REPORT

Not exempt

Treasury Management and Prudential Indicators mid-year report 2023/24

Executive Summary

This report covers treasury activity and prudential indicators for the first half of 2023/24. The corresponding report for the quarter ending 30 June 2023 was emailed to Members of the Committee on 31 July 2023. During the period the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 30 September 2023, the Council had no external debt and its investments totalled £84.6m (£87.8m at 30 September 2022). During the first half of 2023/24, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £1.63m was earned on investments at an average return of 4.1% (2.6% full year 2022/23).

Treasury investment income for the full year is forecast to be £1.3m above the budget as interest rates are significantly higher than those in the budget. Commercial property income is forecast at slightly below budget for the year.

Recommendations

The Committee is recommended to:

i) Note the treasury management stewardship report at the mid-year 2023/24
ii) Note the mid-year prudential indicators for 2023/24

Reasons for Recommendations

i) This mid-year report is a requirement of the Council's reporting procedures
ii) This report meets the requirements of the relevant CIPFA Codes of Practice for Treasury Management and Prudential Indicators in Capital Finance.

Background Papers

- "Capital Strategy 2023/24 incorporating Investment and Treasury Management Strategy" – Audit Committee 7 December 2022
- "Budget 2023/24 and Medium-Term Financial Strategy" – Cabinet 26 January 2023

Consultation: Arlingclose Limited. Council's Treasury management advisors
Wards affected: All
Contact: Julian Olszowka, Group Accountant, Technical 01403 215310

Background Information

1 Introduction

The purpose of this report

1.1 This report covers treasury management activity and prudential indicators for the first half of 2023/24. It meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

Background

1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to show that capital spending is prudent, affordable and sustainable and that treasury practices adequately manage risk. The Council approved the original indicators for 2023/24 together with the Capital Strategy on 22 February 2023. The Capital Strategy including the Treasury Management Strategy 2023/24 had been recommended for approval by this Committee on 7 December 2022.

1.3 The economic background to treasury management remains challenging with weak UK growth, inflation still high, and interest rates having to respond. This feeds into an unhelpful uncertainty over the direction of the economy in the next year or so. Arlingclose Limited, the Council's treasury management advisors, have provided a commentary on the half-year in Appendix A.

Local Context

1.4 At the end of 2022/23 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £32.7m. The Council had no borrowing and £75m of investments reflecting its use of internal resources rather than borrowing in order to reduce risk and keep interest costs low.

1.5 On 30 September 2023, the Council had no borrowing and investments of £84.6m. Capital spend in the first half year was £5.2m against an annual budget of £16.8m. Projected full year spend was £14.8m. None of the spend in the first half year was unfinanced meaning that the CFR would not be increased.

1.6 Interest rates continued to rise in the first half of the year leading to significantly increased income. The exact trajectory of rates is unclear with inflation on one side and possible recession on the other leaving the Bank of England with a difficult course to navigate. The projection form the Council's adviser is that rates have peaked although the central bank was reiterated it will not hesitate to take action if inflation goes back up.

2 Treasury management

Borrowing Activity

2.1 There was no borrowing in the period. No borrowing is envisaged in the second half of the year.

Investment Activity

2.2 The treasury management position at 30 September 2023 is shown below. This is the month end position, but the daily position can vary as a large portion of income comes in at the beginning of month to be distributed to precepting authorities a few days later.

	31.3.23 Balance £m	**Movement £m**	**30.9.23 Balance £m**	**30.9.23 Rate %**
Banks & building societies (unsecured)	0.8	-0.4	0.4	1.5%
Covered bonds (secured)	16.3	3.7	20	4.6%
Local authorities & govt entities	8.5	3.5	12	5.3%
Money Market Funds – call	7.5	3	10.5	5.3%
Money Market Funds – cash plus or short bonds	13.1	0.1	13.2	2.9%
Pooled Funds – Property	4.7	-0.1	4.6	3.8%
Pooled Funds – Multi-Asset	8.4	-0.2	8.2	4.9%
Pooled Funds – Equity	8.6	-0.2	8.4	4.5%
Pooled Funds – Bonds	5.3	0.0	5.3	3.5%
REIT	1.8	0.2	2.0	2.7%
Total Investments	75	9.6	84.6	4.5%

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

2.4 Investment income on a cash basis in the period was £1.63m well above the budget of £0.99m. The average return was 4.1% well above the budgeted figure of 2.8% and cash balances averaged £80m compared with the budgeted £71m. Due to the prudent cash flow projections the Council usually has more cash than budgeted.

2.5 While pooled funds are a useful diversifier for the Council's investment, they can show a theoretical capital loss if the current value of the funds is below the purchase value. At the end of the half year the capital loss was £1.3m. This has no effect on the revenue accounts of the Council now as it has a statutory override of the accounting rule that would make the Council recognise the capital loss in its revenue account but potentially will have an effect after 31 March 2025 as the Government has so far only announced the statutory override on the accounting rules would be extended until then.

2.6 The returns in the second half of the year are expected to continue to show marked increases and the outturn position on income is expected to be £1.3m above budget.

2.7 Given the risk inherent in short-term unsecured bank investments, the Council has reduced its exposure to them except through well diversified money market funds or call accounts. Otherwise, the Council has used local authorities, central government, secured bonds alongside strategic pooled funds.

Compliance

2.8 The Director of Resources reports that all treasury management activities undertaken during the first half of 2023/24 complied with the CIPFA Code of Practice and the Treasury Management Strategy recommended by this Committee.

2.9 Security of capital has remained the Council's main investment objective. Key to this is the counterparty policy as set out in its treasury management strategy. Counterparty credit quality was assessed and monitored with reference to credit ratings, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Treasury Management Indicators

2.10 The Council measures and manages its exposures to treasury management risks using the following indicators.

2.11 **Security benchmark** – The Council set a security benchmark rating of A, which is the average credit rating for the investment portfolio. The average rating was at above the benchmark at AA during the first half of the year.

2.12 **Liquidity benchmark** – The Council sets a benchmark to maintain a minimum of liquidity. The benchmark set was that £3m is available within a rolling three-month period without additional borrowing. The Director of Resources can report that liquidity arrangements were well within benchmark during the year to date with overnight cash alone not falling below £5m.

Treasury Management Indicators

2.13 **Interest rate exposures** - This indicator is set to control the Council's exposure to interest rate risk. The exposures to variable rate interest rates is quantified by the one-year revenue impact of a 1% rise or fall in interest rates. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. This indicator is within the limit.

Interest rate risk indicator - Upper limit	Limit	Actual
One-year revenue impact of a 1% rise	-£0.3m	-£0.18m
One-year revenue impact of a 1% fall	£0.3m	£0.18m

2.14 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. The limits and actuals on the long-term principal sums invested to final maturities beyond the period ends are below and the actual values were within limits.

£m	2023/24	2024/25	2025/26	No date
Actual principal invested beyond year-end	£13.5m	£13.5m	£9.4m	£28.7m
Limit on principal invested beyond year-end	£16m	£14m	£12m	£35m

3 Prudential Indicators 2023/24

3.1 The Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. To demonstrate that the Council meets these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

3.2 **The Council's Capital Expenditure and Financing 2023/24 -** This is one of the required prudential indicators and shows total capital expenditure for the year and how this is financed. The estimated indicator is shown below. The forecast Capital spend includes £7.7m for the Local Authority Housing Fund which was added to the capital programme after the budget was set. This additional spend is projected to be financed from £3.4m of government grant with the balance being internal resources such as capital receipts or reserves and no unfinanced spend is currently projected.

2023/24	Original estimate £m	Current projection £m
Total capital expenditure	7.3	14.8
Resourced by:		
External Resources	2.0	4.9
Internal Resources	5.3	9.9
Debt	0.0	0.0
Total financing	7.3	14.8

3.3 **The Council's overall borrowing need -** The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.4 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2023/24 MRP Policy was approved on 22 February 2023 within the 2023/24 Budget report.

3.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. The current projection is equal to the original estimate. No increase in long-term borrowing is projected in this financial year.

Capital Financing Requirement and External Debt Year end 2023/24	Original estimate £m	Current projection £m
CFR	31.8	31.8
External debt	0	0

3.6 External borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. No difficulties are envisaged for the current or future years in complying with this Prudential Indicator as no long-term borrowing is currently planned.

3.7 **Borrowing limits** - The Council approved these Prudential Indicators as part of the 2023/24 Budget report.

3.8 **Operational boundary for external debt:** The operational boundary is the Council's estimate of most likely, but not worst-case scenario for external debt.

3.9 **Authorised limit for external debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom above the operational boundary for unusual cash movements.

	Maximum Debt	Authorised limit	Operational boundary
Borrowing	£0m	£15m	£0m
Finance leases	£0m	£6m	£0m

3.10 **The ratio of financing costs to net revenue stream -** This indicator identifies the financing costs of capital (revenue provision and any debt interest) against the net revenue stream. The indicator for the year was 7%. Based on current estimates as neither figure has changed significantly the ratio is expected to be 7% for the year.

4 Non-Treasury Investments

4.1 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in DLUHC Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

4.2 The Council has a significant directly owned property portfolio valued at £58m at the end of 2022/23. The original investment strategy set £3.7m as the income net of direct costs figure from the property portfolio and the present forecast is that the actual position will be £0.175m below budget because of a rent reduction and a long term letting requiring more work than expected to progress to completion.

4.3 **Net income from commercial and service investments to net revenue stream**: This prudential indicator shows the proportion that commercial net income forms of the whole Council's net revenue stream. The current projection is 26% against an estimate of 28% reflecting the dip in net income from the property portfolio.

4.4 There are a number of other indicators that were set for the year that cannot be definitively calculated until the end of the year when the accounts are closed and all relevant income and expenditure is accrued and central expenses are apportioned across all the Council's services. Some indicators can estimated as a snapshot from property records and the table below shows the original estimated indicators and the latest projections.

Indicator	Estimate	Latest
Average Vacancy levels	3%	3%
Tenant over 5% net income	5	4
Weighted Average Unexpired Lease Term	14yr	14yr
Bad debts written off	£200,000	£100,000

4.5 A number of indicators for the investment properties require the end of year value of properties. A valuation of all investment properties is carried out at year end as a part of the final accounts. Valuations had been affected by the higher interest rates available and weakness in the economy which may well affect the values at the year-end date.

5 Outcome of Consultations

5.1 Externally the Council's adviser Arlingclose was consulted. Internally the Head of Property and Facilities was consulted.

6 Other courses of action considered but rejected

6.1 This report is to be noted so no particular course of action is recommended.

7 Resource Consequences

7.1 For the first half year interest earned was £1.63m compared to £0.66m last year in the same period. Interest earned in 2023/24 is projected to be £3.7m, which is £1.3m over the budget of £2.4m. MRP is projected to be on budget of £0.92m.

7.2 There are no direct staff resourcing consequences.

8 Legal Considerations and Implications

8 .1 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and guidance issued by the Department for Levelling Up, Housing and Communities Guidance.

9 Risk assessment

9.1 Risks such as security of funds, liquidity, and interest rate risk are considered in the report. The limits and indicators chosen effectively set the Council's risk appetite and we here report on the actual values in the first half of the year against those limits and indicators.

10 Procurement implications

10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no direct equality or human rights implications arising from this report. However, it is recognised that the Council's investment choices may have an indirect effect on social issues. The investment management industry has begun to add social issues such as human rights and equality to its criteria for selecting investments and although this is at an early stage officers will work with its advisers as to how it can positively contribute in this area.

12 Environmental Implications

12.1 There are no direct environmental implications attributable to the recommended strategies. However, it is recognised that the Council's investment choices may have an indirect effect on the environment. Officers will work with its adviser as to how it can positively and constructively use its investments to reduce impact on the environment.

13 Other Considerations

13.1 There are no other considerations to take into account.

Appendix A

Economic background to the midpoint of 2023/24

Economic background: The UK inflation rate remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively. Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

Financial markets:
Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit background: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank, purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period..

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

High market volatility is expected to continue and the institutions and durations on the Authority's counterparty list recommended by Arlingclose are under constant review.

6 December 2023
By the Director of Resources
DECISION REQUIRED

Not exempt

Capital Strategy 2024/25 incorporating Investment and Treasury Management Strategy

Executive Summary

This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services, how the associated risks are managed and the implications for future financial sustainability.

The strategies set limits and indicators that embody the risk appetite that the Council believes to be prudent. The strategies are set against the Council's own mid-term financial strategy, the context of the UK economy and projected interest rates.

Treasury investment criteria and limits which are unchanged except for the limits for long term investments that have been increased by £4m to give more leeway for medium term investing. Details are in Appendix B paragraph 36.

The investment strategy in paragraphs 4.11 to 4.18 and appendix C pulls together information on service loans and commercial property to demonstrate the Council's risk management approach in that area. The overall strategy is unchanged. The commercial property portfolio is projected to maintain income levels but risks to income persist especially in the retail part of the portfolio.

Recommendations

The Committee is asked to:

i) approve this Capital Strategy as an appropriate overarching strategy for the Council while leaving full Council to approve the updated Capital Strategy that will accompany the 2024/25 budget to Council.

ii) recommend that full Council approve the Treasury Management Strategy for 2024/25 and the associated limits and specific indicators included in section 4 and appendix B of this report.

iii) recommend that full Council approve the Investment Strategy for 2024/25 and the associated limits and specific indicators included in section 4 and appendix C of this report.

Reasons for Recommendations

i) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice and Prudential Code for Capital Finance that require the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year.

ii) The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2018 that the Council is required to have regard to.

Background Paper

"Update of the Council's Financial Position in 2023/24" – Cabinet 23 November 2023

Consultation: Arlingclose Limited

Wards affected: All

Contact: Julian Olszowka, Group Accountant, Technical, 01403 215310

Background Information

1 Introduction

The purpose of this report

1.1 This report covers the requirements of CIPFA Codes and guidance that the Council must, by statute, have regard to. Section 3 gives an overview of:

- how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services
- how associated risk is managed and;
- the implications for future financial sustainability.

1.2 The Treasury Management Strategy in section 4 covers the aspects of investments that this Committee has historically considered. It covers management of the Council's cash flows, borrowing and investments, and the associated risks.

1.3 The Investment Strategy starting in paragraph 4.11 covers investments held for service purposes or for commercial yield.

1.4 The guidance requires the Capital and Investment Strategies to be approved by full Council while the Treasury Management Strategy can now be approved by a subcommittee of the Council. However, here we follow the Council's own practice that this Committee recommends the Treasury Management Strategy be approved by full Council.

2 Background

Economic background

2.1 The Council's strategies must take account of expectations for the economy and specifically the finance sector. The Council receives advice on this from its advisors Arlingclose Ltd. Appendix A is a commentary by them on the current economic background, the outlook for creditworthiness and interest rates.

2.2 For the purpose of the interest budget, any new investments are estimated to be on or about the Bank Rate.

2.3 The treasury management environment has changed radically over last year or so. The very low yields that had seemed to be the new normal have been replaced by rising rates and rate volatility. Although this has brought challenges of interpreting how rates would develop, the rising rates have significantly increased the Council's investment income. The next movement in rates is expected to be a slow downward trajectory, however, recent experience has underlined the risk of relying too much on expert economic predictions.

Statutory background

2.4 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Codes and the Department For

Levelling Up, Housing and Communities Guidance. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

2.5 Next year will be the second year of fully implementing the 2021 revised Codes. Those revisions were a tightening of previous versions of the Codes after concerns from CIPFA and Central Government that some councils were able to take unsustainable commercial risks under the previous Codes.

Relevant Council policy

2.6 The Council's constitution requires that the Council approve Prudential Code indicators and Treasury Management Strategy. The Investment Strategy covering commercial property has been split from the traditional Treasury Management Strategy here for ease of understanding as it deals with a different type of investment, but it can be considered to be encompassed in the definition of the Treasury Management Strategy as used by the Constitution.

2.7 The existing strategies and Prudential indicators were approved by the Council on 22 February 2023; having been recommended for adoption by this Committee on 7 December 2022.

3 Capital Expenditure and Financing

3.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

3.2 Service managers bid annually in October to include projects in the Council's capital programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Senior Leadership Team appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to the informal cabinet. The final capital programme is then presented to Cabinet in January and to Council in February each year.

3.3 The current projected capital programme and financing is shown below. It includes current estimates for capital bids for 2024/25 and beyond. It will be revised, if necessary, as the 2024/25 budget process develops and the final figures that appear alongside the final budget report in 2024 will constitute the prudential indicators required by the CIPFA Prudential Code.

3.4 The £2.4m of 'debt' financing in 2024/25 is the effect of an accounting change following the implementation of the accounting standard IFRS16 by UK councils. Leased assets will be recognised as though they are an asset on the balance sheet from April 2024 which leads to an increase in the necessary capital finance. This creates a 'notional' financing requirement as though the asset were purchased. The actual cash payments for leases remains the same so there is no change to the financial transactions of the Council only its presentation in the accounts.

£millions	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Services spend	4.3	14.6	10.9*	11.6	14.8
Capital Investments	0.9	0.2	0.1	0.1	0.1
Financed by:					
External resources	2.7	4.9	2.0	1.8	5.3
Internal Resources	2.5	9.9	6.6	9.9	9.6
Debt	0.0	0.0	2.4*	0.0	0.0
Total Financing	5.2	14.8	11.0	11.7	14.9

*Spend and debt have £2.4m added due to lease accounting change which does not represent cash expenditure

3.4 Capital spend is broken down into spend which directly provides services and spend on capital investments, which covers equity and loans provided to the Council's Housing companies or required improvements to existing investment properties.

3.5 The term 'Debt' used above does not automatically lead to external borrowing as the Council may be able to use cash it holds in reserves and as working capital which is usually termed 'internal borrowing'.

3.6 Over time, all debt, whether it be internal or external borrowing, must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). The Council is required to make an annual MRP statement and this will be included in the Budget report in January 2024 and the methodology will be on the same basis as 2023/24. The current planned MRP payments are set out below. The increase in 2024/25 is due to the accounting change mentioned above and again does not affect the Council's overall budget.

£millions	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
MRP	0.9	0.9	1.2	1.2	1.2

3.7 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and any capital receipts used to replace debt. The CFR is gradually decreasing as MRP is paid and no new unfinanced spend is planned. The increase 2024/25 is again due to the change in lease accounting. The Council's estimated CFR is projected as follows:

£millions	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
CFR	32.7	31.8	33.0	31.8	30.7

3.8 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets. Repayments of capital grants, loans and investments also generate capital receipts. Loans repaid below are estimates of those from the Council's Housing Company. The Council projects capital receipts as follows*:*

£millions	**2022/23 actual**	**2023/24 forecast**	**2024/25 estimate**	**2025/26 estimate**	**2026/27 estimate**
Asset sales	0.4	0.4	0.4	0.4	0.4
Loans repaid	0.3	0.0	0.0	0.0	0.0
TOTAL	**0.7**	**0.4**	**0.4**	**0.4**	**0.4**

4 **Treasury Management**

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.2 **Borrowing strategy**: The Council has no plans to borrow but could find itself in a position which calls for borrowing. In that circumstance, the main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility. These objectives are often conflicting, and the Council therefore would seek to strike a balance between short-term loans (currently available at about 5.4%) and long-term fixed rate loans where the future cost is known (currently about 5%).

4.3 Projected levels of the Council's total outstanding debt are shown below, compared with the Capital Financing Requirement. Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from the table the Council expects to comply with this in the medium term.

£millions	**31.3.2023 actual**	**31.3.2024 forecast**	**31.3.2025 budget**	**31.3.2026 budget**	**31.3.2027 budget**
Debt	0	0	2.4*	2.1*	1.9*
CFR	32.7	31.8	33.0	31.8	30.7

*Debt is again purely due to accounting change and not actual unfinanced spend

4.4 The table above demonstrates that the Council is relying on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrowing from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Director of Resources will monitor the actual position against the projections in order to be ready to respond should external borrowing become advisable.

4.5 **Liability benchmark:** This is an indicator in the CIPFA Prudential Code designed to compare a Council's actual borrowing against a benchmark showing the lowest risk level of borrowing. The Council has no current or forecast need to borrow and therefore has a liability benchmark of zero. The table in paragraph 4.8 below shows a projection of investments based on long-term cash flow forecasts and this acts as a general envelope for the long-term treasury management strategy.

4.6 **Affordable borrowing limit**: Irrespective of plans to borrow or not the Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Although no borrowing is planned, limits are set in case a need develops. Further details on borrowing are in appendix B.

£millions	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**	**2026/27 limit**
Authorised limit – borrowing	15	15	15	15
Authorised limit – leases	6	6	6	6
Authorised limit – total external debt	21	21	21	21
Operational boundary – borrowing	0	0	0	0
Operational boundary – leases	0	2.5	2.5	2.5
Operational boundary – total external debt	0	2.5	2.5	2.5

4.7 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are dealt with in the Investment Strategy in paragraph 4.11 onwards and Appendix C.

4.8 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice. The future longer-term investments in the table below include strategic pooled funds that the Council intends to hold for the longer term, although they can be sold if required.

	31.3.2023 actual	**31.3.2024 forecast**	**31.3.2025 estimate**	**31.3.2026 estimate**	**31.3.2027 estimate**
Near-term investments	33	27	23	19	16
Longer-term investments	42	42	42	37	28
TOTAL	**75**	**69**	**65**	**56**	**44**

4.9 The projections show cash balances at year-end, which is a cash low point, in the region of £40m in the medium term. The Capital programme is expected to include some major projects in the medium term which will start to eat into cash balances. The position around developers' contributions is uncertain because of strategic planning issues so their contribution to cash balances is hard to quantify. Further detail on treasury investments are in Appendix B including limits and indicators which the Committee is asked to consider. The significant changes compared to last year's limits are an increase in limits on long term investments.

4.10 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the Treasury Management Strategy as approved by the Council following this committee's scrutiny and recommendation. The Audit Committee currently receives quarterly reports and is responsible for scrutinising treasury management decisions.

Investment Strategy (loans, shares and property)

4.11 This section is the disclosure required by CIPFA and the Department for Levelling Up, Housing and Communities guidance, which has been tightened in recent years as concerns over the perceived increasing risks in Local Authority sector as councils have become more commercial and made large commercial property purchases.

Investments for Service Purposes

4.12 The Council has the ability to make investments to assist local public services, including making loans to local service providers and buying shares and making loans to any Council subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments. However, it still plans for such investments to generate a return after all costs to offset risk. Further details on service investments are in appendix C. The overall limits are £4m on the total exposure to loans for service purposes. The limit to exposure permitted for shares is £0.5m.

4.13 **Governance:** Decisions on service investments are made by full Council after the relevant Head of Service has submitted a comprehensive analysis in consultation with the Director of Resources and must meet the criteria and limits. Most loans and shares are capital expenditure and will therefore also be approved as part of the capital programme in the Budget report or by full Council.

Commercial Activities

4.14 With central government financial support for local public services declining, the Council invests in commercial property within the district purely or mainly for financial gain. Total commercial investments were valued at £58m on 31 March 2023. These provide a net return after direct costs of 6.4% based on the last set of final accounts which value the assets at market value rather than historical value.

4.15 As financial return is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include individual voids, falls in market value, and changes in economic activity. Individual property risks are constantly monitored and managed by the Head of Property and Facilities. Should income not meet expectations the Council holds at least £6m of general reserves available to balance the revenue budget in the short term while the Head of Property and Facilities reviews the performance of the portfolio.

4.16 In order that commercial investments remain proportionate to the financial capacity of the Council, these are currently subject to an overall maximum investment limit which is set at £70m.

4.17 **Governance:** Decisions on new commercial investments are made by the Cabinet after consideration by the Policy Development Advisory Groups for Finance and Resources, and Local Economy and Place in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on commercial investments and associated limits and benchmarks are in appendix C.

4.18 **Net income from commercial and service investments to net revenue stream:** the latest iteration of the Code requires the reporting of a prudential indicator that shows the proportion that commercial and service net income forms of the whole Council's net revenue stream.

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Total net income from service and commercial investments	£3.7m	£3.5m	£3.8m	£3.8m	£3.8m
Proportion of net revenue stream	29%	26%	27%	26%	27%

Other Liabilities

4.19 The Council has set aside £0.9m to cover risks of Business Rates Appeals. The Council is also at risk of having to pay for historic insurance claims but has not put aside any money because there is no reasonable assessment of the amount required.

4.20 **Governance:** Decisions on incurring new discretionary liabilities are taken by the relevant director in consultation with the Director of Resources. If significant, these would be discussed at the quarterly corporate risk management meeting and final decisions as to recognition taken by the Director of Resources. New liabilities exceeding £1m are reported to full Council for approval or notification as appropriate. Further details on liabilities are in note 18 of the 2022/23 statement of accounts.

Revenue Budget Implications

4.21 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. This annual charge is known as financing costs. This is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants to produce a required prudential indicator. As the Council does not borrow the financing costs are purely the MRP which is stable apart from the increase due to the lease accounting change as no new unfinanced spend is envisaged.

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.9	0.9	1.2*	1.2*	1.2*
Proportion of net revenue stream	7%	7%	8%	8%	8%

*The increase in 2024/25 is the one-off effect of the IFRS16 lease accounting change

4.22 **Sustainability:** Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because the net budget demand on the Council and the risks in the programme have been reviewed and fall within the Council's tolerances.

Knowledge and Skills

4.23 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources and S151 Officer is a qualified accountant with over 15 years' finance experience and the Head of Property and Facilities is a member of RICS with over 35 years' experience in commercial property. The Council continues to support junior staff to study towards relevant professional qualifications.

4.24 Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and for any significant property investment would use property consultants with specialist knowledge of the appropriate property sector. This approach ensures access to right knowledge and skills and can be more cost effective than employing such staff directly. The overarching requirement is that the Council has access to knowledge and skills commensurate with its risk appetite.

5 Outcome of Consultations

5.1 Externally the Council's adviser Arlingclose was consulted. Internally the Head of Property and Facilities was consulted.

6 Other courses of action considered but rejected

6.1 The Department for Levelling Up, Housing and Communities' Investment Guidance and the CIPFA Codes of Practice do not prescribe any particular strategies for local authorities to adopt. The above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates using less internal funds	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Invest more in service loans	Interest income will be higher and service benefits will accrue	Increased risk of losses from credit related defaults or service body being unable to pay loan and provide service
Reduce investment in property	Income will be lower	Lower chance of losses from non-paying tenants or falling property values.
Invest additional sums in property	Income will be higher	Increased chance of losses from vacancies or falling property values. Reputational and regulatory risk if Council incurs large loss

7 Resource consequences

7.1 The budgeted treasury investment income in 2024/25 is £3.6m (2023/24 £2.4m), which is equivalent to an average investment portfolio of £81m at an interest rate of 4.5%. The increase is due to the general increase in the rates available. There is no budget for debt interest as no borrowing, even on a short-term basis, is envisaged. The budget for commercial property net income is £3.8m which is a yield of 6.5% from an investment portfolio of £58m.

7.2 There are no staffing consequences apart from the need for appropriate training.

8 Legal Considerations and Implications

8 .1 This report is part of the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and the guidance issued by the Department for Levelling Up, Housing and Communities.

9 Risk assessment

9.1 Risks such as security of funds, liquidity, and interest rate risk are considered in the report. The limits and indicators chosen effectively set the Council's risk appetite.

10 Procurement implications

10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no direct equality or human rights implications arising from this report. However, it is recognised that the Council's investment choices may have an indirect effect on social issues. The investment management industry has begun to add social issues such as human rights and equality to its criteria for selecting investments and although this is at an early stage officers will work with its advisers as to how it can positively contribute in this area.

12 Environmental Implications

12.1 There are no direct environmental implications attributable to the recommended strategies. However, it is recognised that the Council's investment choices may have an indirect effect on the environment. Officers will work with its advisers as to how it can positively and constructively use its investments to reduce impact on the environment.

13 Other Considerations

13.1 There are no other considerations to take into account.

Appendix A Economic background and interest rate forecast

Economic background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the economic background to the Council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 4.6% in October a fall from the September 2023 figure of 6.7%. Core CPI inflation fell to 5.7% from 6.1%. Although these figures fell more than expected inflation is still well above the Government's 2% target.

ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate remained at 4.2% in the second and third quarters of 2023. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.7% over the third quarter. The unemployment rate has remained at 4.2% in the last two quarters while vacancies fell from August to October 2023 58,000 to 957,000.

Credit outlook

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget.

Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

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

Interest rate forecast:

Although UK inflation and wage growth remain high, the Council's adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The BoE's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; Certainty Rate = Gilt yield + 0.80%

Appendix B Treasury Management Strategy

Mid-year position and forecast

1 On 30 September 2023 the Council held no borrowing and £84.6m of investments at market value; broken down as follows:

	Principal £m	Interest Rate %
Banks & building societies (unsecured)	0.4	1.5
Covered bonds (secured)	20	4.6
Local authorities & govt entities	12	5.3
Money Market Funds – call	10.5	5.3
Money Market Funds – cash plus or short bonds	13.2	2.9
Pooled Funds - Property	4.6	3.8
Pooled Funds – Multi-Asset	8.2	4.9
Pooled Funds – Equity	8.4	4.5
Pooled Funds – Bonds	5.3	3.5
REIT	2.0	2.7
Net Investments	**84.6**	**4.5**

2 Taking the forecasts within the capital strategy, the balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds. The notional external borrowing is again a consequence of lease accounting change and is not true borrowing.

All figures at year-end £m	**Actual 2022/23**	**Estimate 2023/24**	**Estimate 2024/25**	**Estimate 2025/26**	**Estimate 2026/27**
CFR	32.7	31.8	33.0	31.8	30.7
Less notional lease borrowing	0	0	2.3	2.1	1.9
Internal borrowing	32.7	31.8	30.7	29.7	28.8
Useable reserves, receipts, contributions held	96.0	89.6	83.6	73.9	61.0
Working capital/other balances	11.7	11.7	11.7	11.8	11.8
Estimated Investments	75.0	69.5	64.6	56.0	44.0

3 The Council's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. In spite of the continuation of this, the Council is projected to hold significant investment balances even at the end of the financial year, which is the low point for cash. Investments levels are expected to fall over the period as reserves are used to finance capital spend and developer contributions flow out.

Borrowing Strategy

4 As shown above the Council is not expecting to borrow long term funds although it may need short-term borrowing if short term cash flow issues require it.

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

- Public Works Loan Board (PWLB)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except West Sussex County Council Pension Fund)
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues.
- UK Infrastructure Bank Ltd

6 In addition, capital finance may be raised by the use of leases and hire purchase that are not borrowing, but may be classed as other debt liabilities.

7 The Council has historically raised its long-term borrowing from the PWLB. Changes to PWLB lending rules have added restrictions on local authorities planning to buy investment assets primarily for yield. Although the Council has no plans to borrow it will review its capital plans against the PWLB rules so it does not restrict access to PWLB in the future. In the event longer term borrowing is required the Council would consider long-term loans from all possible sources in order to lower interest costs and avoid over-reliance on one source of funding.

Investment Strategy

8 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £108m and £74m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate. The current projections show year-end balances over £44m for the next three years.

9 Both the CIPFA Code and the Department For Levelling Up, Housing And Communities Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council's long-term aim is to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum

invested. This may not be possible in the high inflation environment of today but remains the long-term objective.

10 The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. However, realistically the Council does not have the resources to analyse all its investments for ESG considerations as it is a complex area with no clear and easily followed standards or ESG scoring mechanisms to follow. The Council will work with its advisers and its fund managers in order to maximise its impact in this area and develop its approach over the medium term.

11 The Council expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and maintain investment income. The Council will also explore the use of secured bonds and other ways to diversify its portfolio.

12 **Business models:** Under the IFRS9 accounting standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

13 **Approved counterparties**: The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown. There are no changes from the 2023/24 limits.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities	10 years	£5m	Unlimited
Governments and government entities rated A- and above	10 years	£5m	Unlimited
Secured investments rated AA and above	10 years	£5m	Unlimited
Secured investments rated A- to A+	13 months	£5m	Unlimited
Banks (unsecured) rated A and above	13 months	£3m	Unlimited
Banks (unsecured) rated A-	6 months	£3m	Unlimited
Building societies (unsecured)	13 months	£1.25m	£10m
Registered providers (unsecured) Rated A-and above	5 years	£5m	£10m
Registered providers unrated(unsecured)	3 years	£4m	
Money market funds	n/a	£6m	£50m
Strategic pooled funds – Property, Equity, Bond and Diversified assets	n/a	£6m	£30m
Real estate investment trusts	n/a	£5m	£5m
Other Corporates rated A- and above	1 year	£3m	£5m
Unrated corporates	5 years	£50,000	£2m

This table must be read in conjunction with the notes below.

14 **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

15 **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

16 **UK Local Authority:** The Council will consider investments with a UK local government body up to £5m for up to 10 years. The Council is confident that as a sector, local authorities are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid. However, for any investment over six months the financial resilience of the relevant council will be checked with the Council's advisor.

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

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

19 **Building Societies:** Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. A minimum asset size of £250m applies and limits of £1.25m per Society and £10m in total apply for unrated societies.

20 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services; they retain the likelihood of receiving government support if needed.

21 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee.

22 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and

manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

23 **Real estate investment trusts (REIT):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The Council will carry out a detailed appraisal and take expert advice before any investment.

24 **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

25 **Operational bank accounts:** The Council may incur exposure through its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but still subject to the risk of a bank bail-in and balances will therefore be kept below £3m. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council currently banks with NatWest rated A.

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

- no new investments will be made,
- any existing investments that can be ended at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

27 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no investments other than call investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

28 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.

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

30 **Investment limits**: The Council's revenue reserves available to cover investment losses were in the region of £26m on 31 March 2023, well above the stated minimum long-term target of £6m. In order that available reserves will cover the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government or Local Authority) will be £5m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Category	**Cash limit**
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£22m per broker
Foreign countries	£12m per country

Cash flow management

31 The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its

financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

Treasury Management Indicators

32 **Security benchmark: average credit rating** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The benchmark for 2024/25 will be an average credit rating of A unchanged from 2023/24.

33 **Liquidity benchmark:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. For 2024/25 the benchmark amount available will be £3m unchanged from 2023/24.

Interest rate exposures

34 This indicator is set to control the Council's exposure to interest rate risk. Although no longer part of the formal CIPFA code this indicator is retained for local use. It is an upper limit on the one year revenue impact of a 1% rise or fall in interest rates. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£300,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£300,000

Maturity structure of borrowing

35 This indicator is set to control exposure to refinancing risk for councils with a portfolio of loans. The upper and lower limits on the maturity structure of fixed rate borrowing are shown below. The Council is not planning to borrow but will set limits to allow flexibility of term and maturity date for any new borrowing.

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than a year

36 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Although in the longer medium term the Council's cash balance are expected to track downwards in order to give some leeway in investing to secure longer term rates

it is proposed that these limits increase by £4m. Prior rates are shown in italics. The limits on the total long-term principal sum invested to final maturities beyond the period are:

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£20m*(£16m)*	£18m*(£14m)*	£16m*(£12m)*	£35m

37 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Other Treasury Management issues

38 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

39 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

40 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

41 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

42 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. The Director of Resources believes this to be the most appropriate status.

Appendix C Investment Strategy

1. This Investment Strategy meets the requirements of statutory guidance widening the coverage beyond strict treasury investments. It focuses on the financial support of local public services by lending to or buying shares in other organisations or its own subsidiaries (service investments) and commercial property investment income.

Service Investments: Loans

2. The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only lent to local bodies in very limited circumstances where a significant service outcome is expected. At present there is only one loan to a local community run leisure centre for it to develop a specific facility. The original loan was for £300,000 and there is currently £170,000 outstanding.

3. There is no intention to increase the use of loans to local bodies and they are expected to be infrequent. The Council will, however, be lending to a subsidiary in the guise of its housing company. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure has been set at £4m. This is set to cover the housing company's potential projects. The Council controls its subsidiary so is in a position to determine the level of risk it takes on.

4. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

5. **Risk assessment**: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources. All loans will be subject to contract agreed by Head of Legal and Democratic Services. All new classes of loans must be approved by full Council and will be monitored by Director of Resources.

Service Investments: Shares

6. The Council does not currently intend to invest in any shares except for in its own housing company where £0.5m has been invested. The overall limit for 2024/25 is £0.5m and no further equity funding is currently planned.

7. **Security:** One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. In order to limit this risk upper limits on the sum invested in subsidiaries will be set at the lowest practical level if and when exposure is allowed.

8. **Risk assessment:** The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in including the nature and level of competition, how the market will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources.

9. **Liquidity:** Although this type of investment is fundamentally illiquid, in order to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits. The life of the housing companies has not been explicitly set but the invested equity will be reviewed at a five-year interval.

10. **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's required upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

11. The Council invests in commercial property within the District in order to make a return that will be spent on local public services. These include retail units, business centres, and healthcare facilities. They contributed £3.7m of income net of direct costs in 2022/23 providing a significant support to the Council's finances.

12. The table below lists the properties by major category and by whether they are 'legacy' properties, which is taken as having been on the Council's books on 31 March 2007, or the acquisitions and developments since then. The reason for the choice of 31 March 2007 is twofold: firstly, this was the date of the

implementation of asset accounting under the international financial reporting standard that required the Council to keep detail records of historic asset values and secondly it separates out the last decade or so when the recent purchases are reported. It is these more recent purchases which were made to provide commercial income to support the Council's budget which are of more concern to CIPFA and its latest guidance. For the recent purchases the cost records are available whereas the Council does not have comprehensive records of actual purchase costs so the 31 March 2007 values are used.

Property by type £millions	**Actual**	**31.3.2023 actual**		**31.3.2024 expected**	
	Purchase cost or 31 March 2007 value	**Gains or losses**	**Value in accounts**	**Gains or losses**	**Value in accounts**
Retail – legacy	2.7	1.9	4.6	1.7	4.4
Retail – Swan Walk	9.5	-7.5	2.0	-7.6	1.9
Light industrial - legacy	9.3	9.9	19.2	9.9	19.2
Healthcare – legacy	6.5	1.6	8.1	1.6	8.1
Office - legacy	1.3	0.6	1.9	0.6	1.9
Retail - recent	14.7	-6.1	8.6	-6.5	8.2
Light industrial – recent	6.3	3.8	10.1	3.8	10.1
Healthcare – recent	0.9	0.0	0.9	0.0	0.9
Education -recent	1.8	-0.1	1.7	-0.1	1.7
Leisure – recent	1.5	-0.6	0.9	-0.6	0.9
Total	**54.5**	**3.5**	**58**	**2.8**	**57.3**

13. In the table above the Swan Walk Centre has been taken out of the legacy retail category as it has a significant effect and has its own distinct history. The major loss in value is due to the movement of the valuation of the Council's equity share in Swan Walk. A true separable purchase price for the Swan Walk equity share is not available as the Swan Walk development was a complex set of multiparty arrangements rather than a simple purchase.

14. The values at year-end are uncertain so no significant movement in values is predicted. Values were recovering well after the pandemic but higher interest rates have in general weighed on property values. The estimates for the end of 2023/24 above assume values broadly hold their value apart from retail, where a weak consumer demand may have an effect, so a reduction of 5% has been applied.

15. **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

16. The fair value assessment of the Council’s investment property portfolio is above the ‘purchase’ cost which means that the whole portfolio does provide ‘security’ in terms of the government guidance.

17. The Head of Property and Facilities has considered the prospects for the overall value of the portfolio and bearing in mind it is normal for assets within the portfolio to perform differently depending on market conditions concludes that the best course of action is to hold the assets for the long term as they are sound assets with dependable income streams.

18. The commercial properties are revalued each year-end by an external valuer so should the audited values at the end of 2023/24 fall below their purchase price the Head of Property and Facilities will consider whether the current course of action of holding the assets is appropriate and bring any alternative actions to Council in an update to the Investment Strategy. This is in line with the current government guidance.

19. **Risk assessment:** The Council has no budgeted plans to expand its portfolio in 2024/25 but should there be a change the Council would assess the risk of loss before entering into and whilst holding property investments by :
    - assessing any plans against the CIPFA Code and Government guidance
    - assessing the relevant market including the level of competition, the barriers to entry and exit and future market prospects;
    - using advisors if thought appropriate by the Director of Resources;
    - consulting Policy Development Advisory Groups for Finance & Resources and Local Economy and Place
    - taking final comprehensive report on all new investments to Cabinet
    - continually monitoring risk in the whole portfolio and any specific assets

20. **Liquidity:** Clearly property is relatively difficult to sell at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed the Head of Property and Facilities ensures that at least £5m of commercial property could be sold as a going concern within a six-month period.

Loan Commitments and Financial Guarantees

21 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council plans to provide loan commitments up to £4m to its Housing Company subsidiary. It does not plan to provide any guarantees in the near future.

Proportionality

22 The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy. The figures are best estimates bearing in mind the uncertainty due to the challenging economic position. They assume a reasonably robust level of rents, which may be threatened by a prolonged and deep recession.

Proportionality of Investments £m	**2022/23 Actual**	**2023/24 Forecast**	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**
Gross service expenditure	40	43	43	43	43
Investment income	3.7	3.5	3.8	3.8	4.0
Proportion	9%	8%	9%	9%	9%

23 **Capacity, Skills and Culture**

Elected Members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- understand how new decisions have changed the overall risk exposure of the Council.

The Council will ensure that the relevant officers and the Members of Audit Committee and Policy Development Advisory Groups for Finance & Resources, and Local Economy and Place have appropriate skills, providing training and advisor support where there is a skills gap.

24 **Commercial deals:** The Council will ensure that the Audit Committee, Policy Development Advisory Groups for Finance & Resources and Local Economy and Place, Cabinet, and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

25 **Corporate governance:** Any investment decisions will be scrutinised by Senior Leadership Team, Policy Development Advisory Groups for Finance &

Resources and Local Economy and Place and Cabinet before final approval. The Overview and Scrutiny committee review all decisions made by the Cabinet. Although after the event, the Committee can make any recommendations to the Council if it sees fit.

Investment Indicators

26 The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

27 **Total risk exposure:** The first indicator shows the total exposure to potential investment losses.

Total investment exposure £m	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	75	69	65
Service investments: Loans	0.0	0.0	0.0
Service investments: Shares	0.5	0.5	0.5
Commercial investments: Property	58	57	57
TOTAL INVESTMENTS	133.5	126.5	122.5
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	133.5	126.5	122.5

28 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not have any borrowing the Council's investments are funded by usable reserves and income received in advance of expenditure.

29 **Rate of return received**: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.6%	4.5%	4.5%
Service investments: Loans	0%	0%	0%
Service investments: Shares	0%	0%	0%

Commercial investments: Property	6.4%	6.2%	6.5%
ALL INVESTMENTS	4.2%	5.2%	5.4%

30 **Other indicators:** The Department for Levelling Up, Housing and Communities guidance lists other indicators and the Council has selected the indicators below as appropriate.

Indicator	**2022/23 Actual**	**2023/24 Forecast**	**2024/25 Forecast**
Income net of direct cost return target	6.4%	6.2%	6.5%
Operating overheads of property section attributable to commercial property as a proportion of net property income	6.1%	6%	6%
Average Vacancy levels	4%	3%	3%
Tenant over 5% of net property income	5	5	5
Weighted Average Unexpired Lease Term (WAULT)	14yr	14yr	14yr
Bad debts written off	£82,000	£100,000	£200,000