Civic Centre, Riverside, Stafford

Contact Jim Dean
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Dear Members

Audit and Accounts Committee

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford on Wednesday 13 December 2023 at 6.30pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

I. Curran

Head of Law and Governance

AUDIT AND ACCOUNTS COMMITTEE

13 DECEMBER 2023

Chair - Councillor M G Dodson

AGENDA

1 Minutes of 20 June 2023 as circulated and published on 23 June 2023.

2 Apologies

3 Officers' Reports

Chair - Councillor M G Dodson

M G Dodson	A M Loughran
R A James	A R McNaughton
P A Leason	D P Rouxel

Chair of Audit and Accounts Committee
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29 September 2023

Dear Cllr Dodson

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 March 2024.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Avtar Sohal

Avtar Sohal

Director

Agenda Item 3(b)

Annual Treasury Management Report 2022-23

Committee: Audit and Accounts

Date of Meeting: 13 December 2023

Report of: Deputy Chief Executive (Resources)

Portfolio: Resources Portfolio

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1 Purpose of Report

1.1 To update members on treasury management activity and performance during the 2022/23 financial year.

2 Recommendations

2.1 To note the annual treasury management report for 2022/23; and

2.2 To approve the actual 2022/23 prudential and treasury indicators set out in the Appendix.

Reasons for Recommendations

2.3 The committee is required to receive reports and approve information on treasury management activity during the year

3 Key Issues

3.1 Treasury management activity and performance report during the 2022/23 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

5.2 During 2022/23, the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year;
- a mid-year (minimum) treasury update report; and
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Accounts Committee before they were reported to the full Council. An introduction to local government finance, the current financial position of the council as well as a brief overview of treasury was given to all new members. Further training will be arranged as required.

The Council's Capital Expenditure and Financing

5.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the Appendix.

The Council's Overall Borrowing Need

5.7 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR (non HRA) - the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision - MRP, to reduce the CFR. This is effectively a repayment of the need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or

- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 1 February 2022.

The Council's CFR for the year is shown in the Appendix and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table in the Appendix highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" determined in compliance with section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in the **APPENDIX** demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary -** the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

<u>Treasury Position as at 31 March 2023</u>

5.12 The Council's treasury management debt and investment position is organised by the Treasury Team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

At the end of 2022/23 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

Debt Portfolio	31 March 2022 Principal	Average Annual Rate/ Return	Average Life (yrs)	31 March 2023 Principal	Average Annual Rate/ Return	Average Life (yrs)
Total debt (PWLB)	£0m			£0m		
CFR	£4.1m			£3.8m		
Over / (under) borrowing	(£4.1m)			(£3.8m)		
Total investments	£64.0m	0.14%	0.14	£74.0m	2.01%	0.07
Net investments	£64.0m			£74.0m		

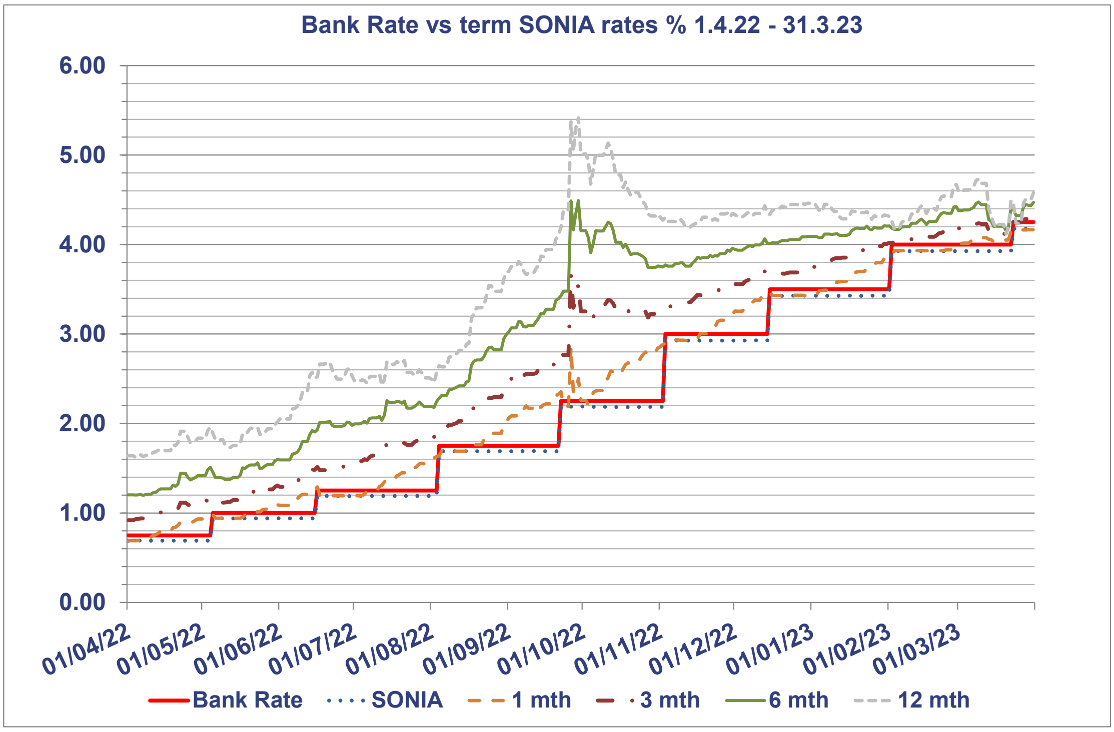
5.12.1 The following table sets out the Council's investments held and their respective rate of returns at 31 March 2023:

Counterparty	Start Date	End Date	Value (£)	Rate %
Al Rayan Bank Plc	22/02/2023	22/05/2023	6,000,000	4.10
National Bank of Kuwait	23/03/2023	24/04/2023	6,000,000	4.15
National Westminster Bank Plc (RFB)	04/01/2023	04/04/2023	4,000,000	3.65
National Westminster Bank Plc (RFB)	15/02/2023	17/07/2023	2,000,000	4.25
Helaba Bank	23/03/2023	24/04/2023	2,500,000	4.22
Helaba Bank	03/03/2023	03/04/2023	3,500,000	3.99
Santander (180 days)	Call Notice Account	Call Notice Account	6,000,000	3.76
Svenska Handelsbanken	Call Account (Instant)	Call Account (Instant)	6,000,000	1.85
Aberdeen GBP Liquidity Class L1	Money Market Fund	Money Market Fund	9,000,000	4.03
Deutsche Managed GBP LVNAV Platinum	Money Market Fund	Money Market Fund	9,000,000	4.14
Federated Hermes Short-Term GBP Prime Class 3	Money Market Fund	Money Market Fund	9,000,000	4.04
Invesco Liquidity GBP Institutional	Money Market Fund	Money Market Fund	2,000,000	4.00
Morgan Stanley GBP Liquidity Institutional Plus	Money Market Fund	Money Market Fund	9,000,000	4.12
Total investments			**74,000,000**	

5.13 All investments in the portfolio have a maturity of under 1 year.

Investment strategy and control of interest rate risk

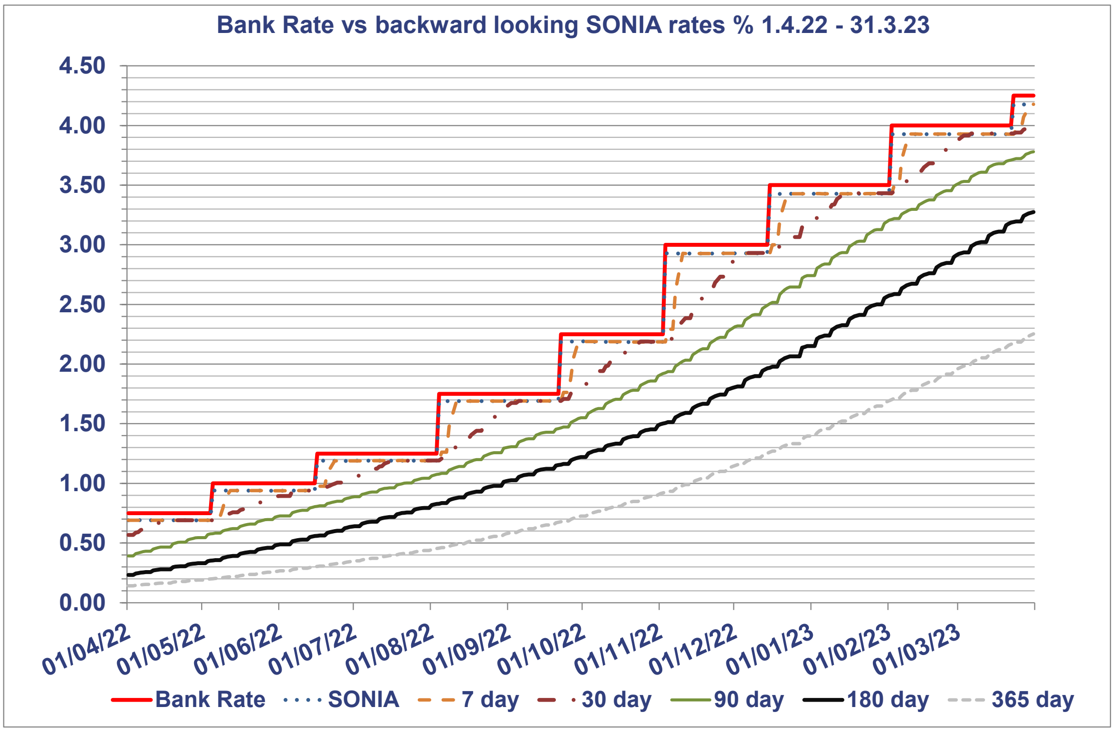
Investment Benchmarking Data - Sterling Overnight Index Averages (Term) 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/3/2023

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.25	4.18	4.17	4.30	4.49	5.41
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	2.30	2.24	2.41	2.72	3.11	3.53
Spread	3.50	3.49	3.48	3.38	3.29	3.79

Investment Benchmarking Data - Sterling Overnight Index Averages (Backward-looking) 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/03/2023

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

5.14 Investment returns picked up throughout the course of 2022/23 as Central Banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy were required.

At the time of writing, the Bank of England has opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and to the current 5.25% in October 2023.

Against this backdrop of market volatility, the sea-change in investment rates meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council’s Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and “rode the yield curve” with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

5.15 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.16 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

5.17 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure.

5.18 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost - the difference between (higher) borrowing costs and (lower) investment returns.

5.19 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The S151 Officer and Deputy Chief Executive (Resources) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

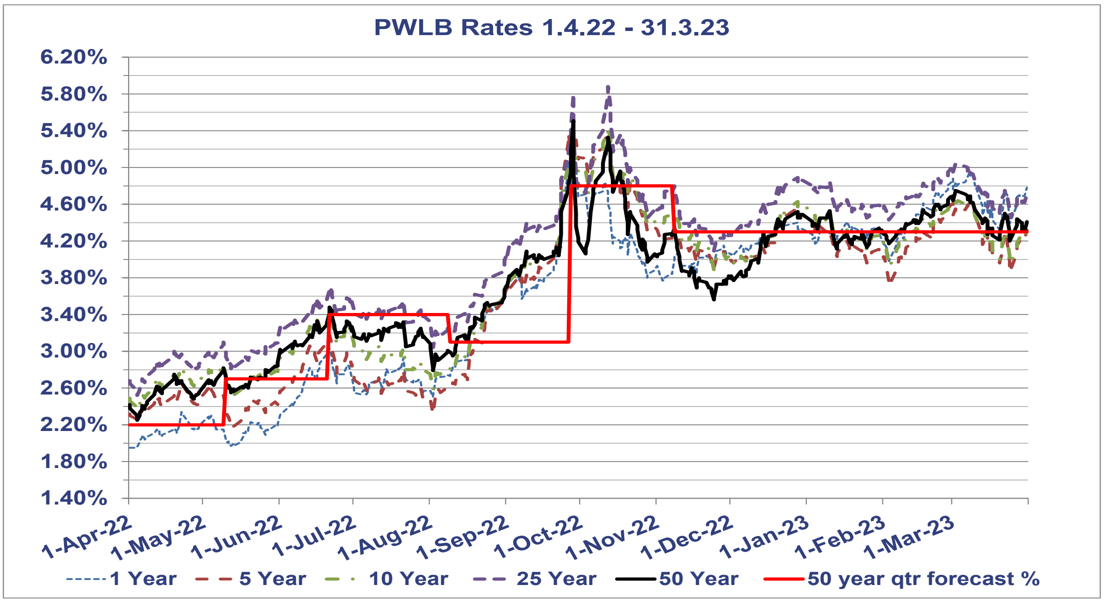
- if it had been felt that there was a significant risk of a sharp FALL in long- and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long- and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.21 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, peaking around 11% in October 2022. As described above, the Bank of England adopted a short-term monetary policy tightening at every Monetary Policy Committee meeting during 2022 and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time until September 2023, in order to control the rampant rise of inflation. At the time of writing, the current CPI measure of inflation is still above 6% in the UK but is expected to fall back towards 4% by year-end. Nonetheless, there remain significant risks to that central forecast.

Link Group Interest Rate View	7.2.22											
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

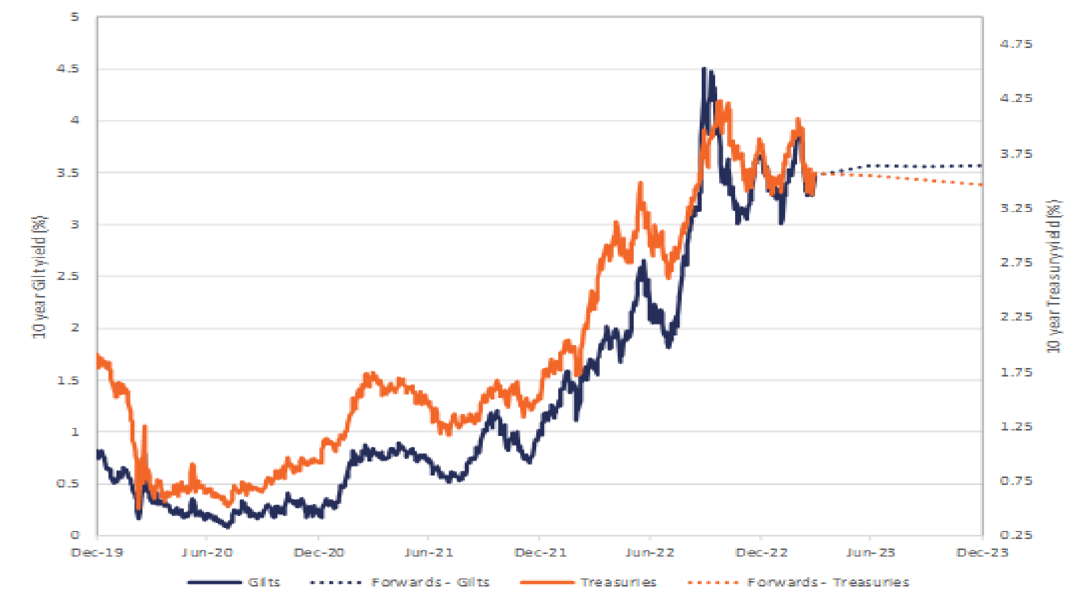
PWLB Rates 2022/23



5.22 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee, European Central Bank and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of UK gilt yields v. US treasury yields



5.23 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

5.24 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

5.25 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Borrowing Outturn

5.26 **Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Investment Outturn

5.27 **Investment Policy** - the Council's investment policy is governed by DHLUC guidance, which has been implemented in the approved annual investment strategy. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

5.28 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.29 **Resources** - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31-Mar-22** £'000	**31-Mar-23** £'000
Earmarked Fund balances / reserves	31,732	32,415
Unallocated Reserves	830	1,569
Capital receipts	1,506	1,443
Capital grants	7,709	15,860
Provisions	3,435	3,374
Other S106 capital	3,214	3,689
Other S106 revenue	2,003	2,495
Total	**50,429**	**60,845**

5.30 **Investments held by the Council:**

- The Council maintained an average balance of £78.8m of internally managed funds.
- The internally managed funds earned an average annualised rate of return of 2.01%.
- Total investment income was £1,583,340.48 compared to a budget of £650,0000.

6 Implications

6.1 Financial

Included in this report.

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Prudential Indicators

Appendix 2: Investment Analysis

8 Previous Consideration

None

9 Background Papers

Held in Finance.

Contact Officer:	Chris Forrester
Telephone Number:	01543 464334
Ward Interest:	Nil
Report Track:	Audit and Accounts 13 December 2023 (Only)
Key Decision:	N/A

Appendix 1

Annual Treasury Management Report 2022/23

1 PRUDENTIAL INDICATORS	2021/22 Actual £'000	2022/23 Estimate £'000	2022/23 Actual £'000
Capital Expenditure	1,318	4,652	2,369
Ratio of financing costs to net revenue stream	1.2%	-2.4%	-8.6%
Gross borrowing requirement - Finance leases	1,788	1,580	1,580
Gross debt	0	0	0
Capital Financing Requirement as at 31 March	4,077	3,777	3,778
Annual change in Cap. Financing Requirement	-357	-300	-299

2 TREASURY MANAGEMENT INDICATORS	2021/22 Actual £'000	2022/23 Estimate £'000	2022/23 Actual £'000
Authorised Limit for external debt -	7,173	6,965	6,965
Operational Boundary for external debt	4,173	3,965	3,965
Actual external debt	0	0	0

Maturity structure of fixed rate borrowing during 2022/23	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Appendix 2

Annual Treasury Management Report 2022/23

The following table sets out an analysis of investments held 31 March 2023 (together with a comparator at 31 March 2022).

INVESTMENT PORTFOLIO	**Actual 31.3.22**	**Actual 31.3.22 %**	**Actual 31.3.23**	**Actual 31.3.23 %**
Money Market Funds	£22.0m	34%	£38.0m	51%
Banks	£42.0m	66%	£36.0m	49%
Local authorities	£0.0m	0%	£0.0m	0%
TOTAL TREASURY INVESTMENTS	**£64.0m**	**100%**	**£74.0m**	**100%**

Agenda Item 3(c)

Treasury Management Mid-Year Report 2023/24

Committee:	Audit and Accounts Committee
Date of Meeting:	13 December 2023
Report of:	Deputy Chief Executive (Resources)
Portfolio:	Resources Portfolio

The following report was considered by Council at its meeting held on 28 November 2023 and is submitted to this Committee as required.

1 Purpose of Report

1.1 To update members on Treasury Management activity and performance during the first half of the 2023/24 financial year.

1.2 To provide an economic update and a background to the latest economic forecasts of interest rates. Both are detailed in the **APPENDIX**.

2 Recommendations

2.1 To note the report, the treasury activity and the Prudential Indicators for 2023/24.

Reasons for Recommendations

2.2 The treasury management strategy sets out the activity for the year and update reports are required to be produced during the year.

3 Key Issues

3.1 To report the Treasury Management activity and performance during the first half of the 2023/24 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury Management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and Treasury Management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

5.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.3 The second main function of the Treasury Management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.4 Accordingly, CIPFA defines “Treasury Management” as:

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

Introduction

5.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.

5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

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

- An economic update for the first part of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

Treasury Management Strategy Statement and Annual Investment Strategy Update

5.7 The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 9 February 2023. There has been no policy change since the TMSS came into force. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

Prudential Indicator 2023/24	Original Prudential Indicator £'000	Revised Prudential Indicator £'000
Authorised Limit	6,862	6,862
Operational Boundary	3,862	3,862
Capital Financing Requirement	3,586	3,586

The Council's Capital Position (Prudential Indicators)

5.8 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the Prudential Indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

5.9 This table shows the estimates for capital expenditure and the changes since the capital programme was agreed at Budget time.

Capital Expenditure by Portfolio	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Community	3,735	3,448
Environment	385	467
Leisure and Culture	1,917	2,521
Planning and Regeneration	13,801	16,840
Resources	50	122
Total	**19,888**	**23,398**

5.10 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Total Spend	**19,888**	**23,398**
Financed by:		
Capital Receipts	854	1,368
Capital Grants/contributions	18,592	20,450
Revenue	442	1,580
Total Financing	**19,888**	**23,398**
Borrowing Need	**0**	**0**

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.11 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicators - CFR and Operational Boundary

5.12 We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator - Capital Financing Requirement

	2023/24 Original Estimate £'000	**2023/24 Revised Estimate £'000**
Total CFR	3,586	3,586
Net movement in CFR	**(191)**	**(191)**

Prudential Indicator - the Operational Boundary for external debt

	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Operational Boundary	3,862	3,862
Borrowing	0	0
Other long-term liabilities	1,477	1,477
Headroom	**2,385**	**2,385**

** On balance sheet finance leases etc.*

Limits to Borrowing Activity

5.13 The first key control over the treasury activity is a Prudential Indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross 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. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Borrowing	0	0
Other long-term liabilities	1,477	1,477
Total debt	**1,477**	**1,477**
CFR* (year-end position)	**3,586**	**3,586**

** Includes on balance sheet finance leases etc.*

5.14 The section 151 officer reports that no challenges are envisaged for the current or future years in complying with this Prudential Indicator.

5.15 A further Prudential Indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Authorised limit	**6,862**	**6,862**
Borrowing	0	0
Other long-term liabilities	1,477	1,477
Headroom	**5,385**	**5,385**

** Includes on balance sheet finance leases etc.*

Annual Investment Strategy 2023/24

5.16 In accordance with CIPFA's Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown in **APPENDIX 2** with the accompanying forecast interest rate in near time horizon, there is a relationship with inflation and interest rates. A rise in inflation will invariably lead to a rise in interests. The same wisdom holds true from the opposite situation. Holding true to this relationship, the persistent rise of inflation has correspondingly increased the Bank Rate. At the time of writing, the Bank of England has opted to increase Bank rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and to the current 5.25% in October 2023. In light of the Bank of England's Monetary Policy Committee's surprise decision in September 2023 to maintain bank rate at the current 5.25%, the view is that interest rates have reached their peak. Based on current market conditions and intelligence, it is anticipated that inflation will gradually decline which, in turn, will lead to a fall in Bank Rate. It is projected that Bank Rate to year-end will decrease from 5.25% to 4.00%. Against this backdrop of market volatility, the sea-change in investment rates meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council's Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and "rode the yield curve" with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

5.17 The Council held £78.72m of investments as at 30 September 2023 (£74m at 31 March 2023).

5.18 A full list of investments held as at 30 September 2023 is in **APPENDIX 1**.

Investment Counterparty criteria

5.19 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

Borrowing

5.20 The Council's capital financing requirement (CFR) for 2023/24 is £3.586m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

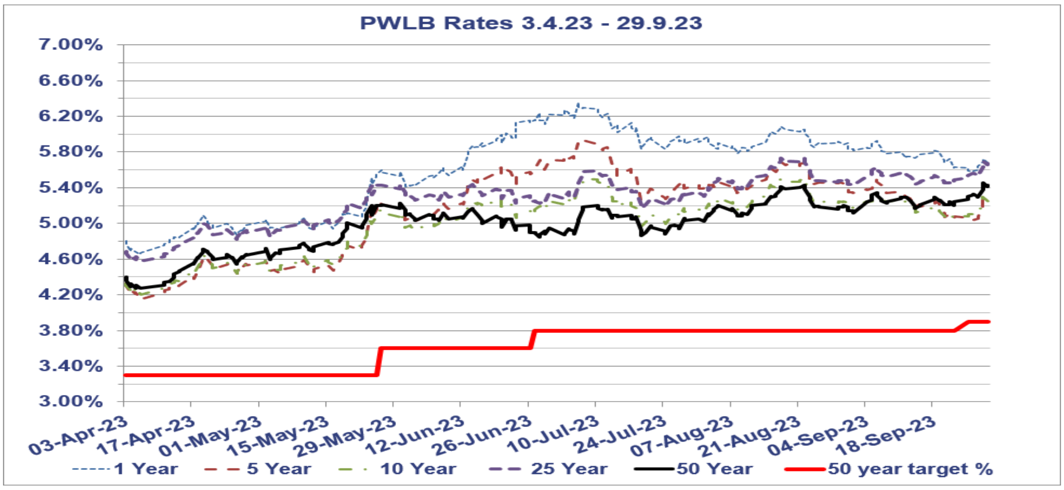
5.21 It is not currently anticipated that borrowing will be undertaken during this financial year, subject to capital slippage into 2024-25 and the trajectory of borrowing rates for the remainder of 23/24.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023

5.22 Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%. July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5 April but rose to 5.45% on 28 September.

5.23 The Council's external treasury advisors, Link Group, forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB Rates 01.04.23 - 29.09.23



High/Low/Average PWLB Rates For 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

5.24 The current PWLB rates are set as margins over gilt yields as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate (GF) is gilt plus 80 basis points (G+80bps)
- PWLB Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)
- PWLB Certainty Rate (HRA) is gilt plus 40bps (G+40bps)

The UK Infrastructure Bank will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

6 Implications

6.1 Financial

Included in this Report.

6.2 Legal

None

6.3 Human Resources

None

6.4 **Risk Management**

None

6.5 **Equalities and Diversity**

None

6.6 **Health**

None

6.7 **Climate Change**

None

7 Appendices

Appendix 1: Current Investment List as at 30 September 2023.

Appendix 2: Economic Update (provided by Link Asset Services as of 30 September 2023)

Appendix 3: Interest Rate Forecast (provided by Link Asset Services as of 30 September 2023)

8 Previous Consideration

Council - 28 November 2023 - Minute No TBC

9 Background Papers

Held with Finance

Contact Officer:	Emma Fullagar
Telephone Number:	01543 464720
Ward Interest:	None
Report Track:	Audit and Accounts 13/12/2023
	Council 28 /11/2023
Key Decision:	N/A

Appendix 1

Treasury Management Mid-Year Report 2023/24

Current Investment List and their respective rate of return as of 30 September 2023

Counterparty	Start Date	Maturity	Value (£)	Rate (%)
National Westminster Bank Plc	17/07/2023	18/12/2023	2,000,000	5.77
National Bank of Kuwait	24/07/2023	24/01/2024	6,000,000	5.87
Helaba Bank	19/07/2023	20/11/2023	6,000,000	5.40
Nationwide B/S	15/08/2023	15/02/2024	6,000,000	5.49
National Westminster Bank Plc	04/09/2023	04/03/2024	4,000,000	5.71
Santander (180 days)		**Call180	6,000,000	4.76
***Handelsbanken		***Call	6,000,000	2.60
***Bank of Scotland		***Call	4,720,000	5.14
Aberdeen GBP Liquidity Class L1		*MMF	500,000	5.29
Deutsche Managed GBP LVNAV Platinum		*MMF	500,000	5.22
Federated Hermes Short-Term GBP Prime Class 3		*MMF	9,000,000	5.35
Invesco Liquidity GBP Institutional		*MMF	9,000,000	5.33
Morgan Stanley GBP Liquidity Institutional Plus		*MMF	9,000,000	5.33
Debt Management Account Deposit Facility (DMO)	04/09/2023	05/02/2024	10,000,000	5.42
Total Investments			**78,720,000**	

*MMF - Money Market Fund (Instant Access)

**Call 180 days' Notice Account

***Call Account (No Notice. Instant Access)

DMO is the Debt Management Office of HM Treasury

Appendix 2

Treasury Management Mid-Year Report 2023/24

Economics update

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England’s closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England’s prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was “finely balanced”. Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures “further tightening in policy would be required”. Governor Bailey stated, “we’ll be watching closely to see if further increases are needed”. The Bank also retained the hawkish guidance that rates will stay “sufficiently restrictive for sufficiently long”.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17 August to 4.44% on 29 September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31 August to 7,608 on 29 September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100’s relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

Appendix 3

Treasury Management Mid-Year Report 2023/24

Interest Rate Forecast

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

The latest forecast on 25 September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

Link's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Agenda Item 3(d)

Strategic Risk Register

Committee: Audit and Accounts Committee

Date of Meeting: 13 December 2023

Report of: Head of Transformation and Assurance

Portfolio: Resources Portfolio

The following report was considered by Cabinet at its meeting held on 2 November 2023 and is submitted to this Committee as required.

1 Purpose of Report

1.1 To set out details of the Council's Strategic Risk Register as at 1 April 2023

2 Recommendation

2.1 That the Committee note the draft Strategic Risk Register and considers the progress made in the identification and management of the strategic risks.

Reasons for Recommendations

2.2 Audit Committee are responsible for monitoring the progress made in relation to the management of the risks identified.

3 Key Issues

3.1 All Strategic Risks and associated action plans have been reviewed and the Council's current risk profile is summarised in the table below:-

Risk Status	Number of Risks 1 April 2023	Number of Risks 30 September 2023
Red (High)	2	2
Amber (Medium)	6	3
Green (Low)	0	0
TOTAL	**8**	**5**

3.2 Three Amber risks have been removed from the Strategic Risk Register.

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:-

(a) Risk management is a systematic process by which key business risks/opportunities are identified, prioritised and controlled so as to contribute towards the achievement of the Council's aims and objectives.

(b) The strategic risks set out in the Appendices have been categorised against the Council's priorities.

5 Report Detail

5.1 The Accounts and Audit Regulations 2015 state that:-

"A relevant body must ensure that it has a sound system of internal control which:-

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk."

5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

Management of Strategic Risks/Opportunities

5.3 The Council's approach to risk management (including its risk appetite) is set out in the Risk Management Policy and Strategy (March 2016).

5.4 Central to the risk management process is the identification, prioritisation and management of strategic risks/opportunities. Strategic Risks are those that could have a significant impact on the Council's ability to deliver its Corporate Business Plan Objectives.

5.5 The risk register has been updated as at 1 April 2023 and a summary is attached as **APPENDIX 1**.

5.6 The risk summary illustrates the risks/opportunities using the "traffic light" method ie:-

RED	risk score 12 and above (action plan required to reduce risk and/or regular monitoring)
AMBER	risk score 5 to 10 (action plan required to reduce risk)
GREEN	risk score below 5 (risk tolerable, no action plan required)

5.7 As part of this review the following changes have been made-

a. Three risks have been deleted:

- Risk C4 “*Failure to work in partnership to sustain support to vulnerable residents*” has been removed from the Strategic Risk Register as the threat to partnership working from covid and the cost of living has reduced and this is now seen as an operation issue.

- Risk 38b “*Failure to minimise the impact on the environment from the construction and operation of HS2*” has been removed from the Strategic Risk Register as this is now considered to be an operational issue

- 40b “Failure to deliver Westbridge Park Open Space transformation” has been removed from the Strategic Risk Register as this is now considered to be an operational issue

b. Risk C5 *“The Council’s key contractors remain sustainable and continue to provide value for money”* has been updated to remove references to the Refuse Collection contractor as this element is no longer consider to be a strategic risk and is being managed operationally.

5.8 All other risks have remained at the same score but comments detail the progress made to deliver the identified controls.

5.9 The key information and progress for each risk is set out in the strategic risk register attached at **APPENDIX 2**. A full strategic risk register including detailed controls and actions for each risk is held on file by the Chief Internal Auditor Risk Manager.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

As set out in the report.

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Summary of the Strategic Risk Register

Appendix 2: Strategic Risk Register Key Information

8 Previous Consideration

Cabinet - 2 November 2023 - Minute No CAB34/23

9 Background Papers

File available in Internal Audit and Risk Section including the full Strategic Risk Register action plan.

Contact Officer:	Stephen Baddeley
Telephone Number:	01543 464415
Ward Interest:	None
Report Track:	Cabinet 2 November 2023 Audit and Accounts 13 December 2023
Key Decision:	No

Stafford Borough Council
Summary of the Strategic Risk Register as at 30 September 2023

Summary of Red Risks

Risk No	Risk Name	Risk Owner	Date Added to Register	Residual Risk Score at April 2023	Residual Risk Score at Sept 2023	Direction of Travel over period reported
C1	Finance Risk	Deputy Chief Executive Resources	May 2020	20 RED	20 RED	↔
C5	Key Contractors Risk	Head of Operations / Head of Wellbeing	May 2020	10 RED	10 RED	↔

Summary of Amber Risks

Risk No	Risk Name	Risk Owner	Date Added to Register	Residual Risk Score at April 2023	Residual Risk Score at April 2023	Direction of Travel over period reported
C2	Economy Risk	Head of Economic Development & Planning	May 2020	9 Amber	9 Amber	↔
C6	Organisational Resilience Risk	Chief Executive	May 2020	9 AMBER	9 AMBER	↔
C7	Cyber Attack Risk	Head of Transformation & Assurance	May 2020	9 AMBER	9 AMBER	↔

Risks Removed

Risk No	Risk Name	Risk Owner	Date Added to Register
C4	Partnership Risk	Head of Wellbeing	May 2020
38b	Impact of HS2 Risk	Head of Regulatory Services and Head of Economic Development & Planning	2014
40b	Westbridge Park Transformation Risk	Head of Economic Development & Planning	2016

Key to Direction of Travel

↓	Risk has decreased	↔	Risk level unchanged	↑	Risk has increased

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER KEY INFORMATION AS AT 30 September 2023

Ref No:	**C1**
Risk Name	**Finance Risk**
Risk Description:	The funding available to the Council from central Government resulting from potential changes to Business Rates, New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves.
Risk Owner:	Deputy Chief Executive - Resources
Portfolio:	Resources
Gross Risk Score (Without Controls in Place)	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Residual/Net Risk Score (i.e. with controls in place)	**Likelihood: 4 Impact: 5 Total Score 20 - RED**
Overall Progress Summary:	The medium-term financial stability of the Council is dependent upon its ability to set a 2024-25 budget that does not draw upon reserves, and the impact of changes arising from the future funding regime for local government. Details in relation to the implementation of 50% Business Rates Retention and Fair Funding and Business Rates Reset are still awaited. The funding available to the Council from central Government resulting from potential changes to Business Rates and New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves. A consultation document in relation to the Future of New Homes Bonus was published in February 2021 (a response from the Council was submitted in advance of the closing date). The Council is awaiting details of the financial Settlement for 2024-25, including New Homes Bonus, to be provided by Central Government, likely in the Autumn. It is therefore clear that the Government's plans for reviews of Business Rates, New Homes Bonus and Fair Funding have a potentially significant impact on the Budget and Medium-Term Financial Strategy (MTFS); and currently there is little information as to outcomes. This uncertainty creates financial risk for the Council. This could result in savings being delivered, in anticipation of a poor Settlement, that

	are not required; or conversely, sub-optimal decisions taken in haste to balance the Budget if the Settlement is worse than expected. In addition to Government policy, there are risks related to inflation and interest rates, both of which have risen since the last financial plan, with predictions they will be more persistent than previously thought by economists. The Council's ability to increase its income in line with rising expenditure is restricted, even if it is willing to do so. Therefore this places a further potential burden on the Budget and MTFS. The rapidly rising cost of living will have a direct impact on our residents and businesses. This, in turn, has the potential to place additional burdens on already stretched Council services. It may also lead to reduced income from fees and charges as residents limit their discretionary spending, and non-payment of Council Tax and Business Rates.

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER KEY INFORMATION AS AT 30 September 2023

Ref No:	**C2**
Risk Name:	**Economy Risk**
Risk Description:	**The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough**
Risk Owner:	Head of Economic Development & Planning
Portfolio:	Economic Development & Planning
Gross Risk Score (Without Controls in Place)	Likelihood: 3 Impact: 5 Total Score: 15 - Red
Residual/Net Risk Score (i.e. with controls in place)	**Likelihood: 3 Impact: 3 Total Score: 9 - Amber**
Overall Progress Summary:	Immediate and longer terms interventions identified and being implemented; minor disruption to major projects and Future High Streets Fund bid updated to reflect impact of Covid-19. Local Plan progression under regular review. Emerging pressures linked to global supply chain issues and costs of goods, services and labour impacting on contracts/delivery. Impact of HS2 on proposed local economy and proposed developments will be monitored.

As at September 2023

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER KEY INFORMATION AS AT 30 September 2023

Ref No:	**C5**
Risk Name:	**Key Contractors Risk**
Risk Description:	**The Council's key contractors remain sustainable and continue to provide value for money**
Risk Owner:	Head of Wellbeing
Portfolio:	Leisure / Resources
Gross Risk Scout (Without Controls in Place	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Residual/Net Risk Score (i.e. with controls in place)	**Likelihood: 2 Impact: 5 Total Score: 10 - RED**
Overall Progress Summary:	• Risk is not at the same level with all contractors. • We are concentrating on the monitoring and financial support to the Leisure contractor which currently carries the highest risk. • Prioritisation of service have been reintroduced based on "open book" process**.** • The other emergent issue has been the significant increase in energy prices coupled with rising inflation arising from marked increases in the prices of fuel, goods and services. During the Covid pandemic lockdown periods and associated restrictions the Council worked with its contractors to support them in implementing their recovery plans. However, the rises in energy prices, taken together with rising inflation, emerged as a significant risk, particularly to the Leisure contractor. The Council has provided support to its leisure and culture service provider with its energy costs, based on an open book approach. The Government announced plans to provide a level of support for leisure providers with swimming pools, as part of the last budget. Along with the above, the forecasted energy costs for 2023 seem more positive, which therefore reduces the likelihood of service failure, as shown by the revised likelihood score in April. That said, the leisure contract remains a strategic risk due to uncertainty in energy markets. Freedom Leisure are producing a Strategic Investment Plan to provide a strategic direction for the contract, outlining key financial and participation priorities. The Plan will aim to ensure that the contract

	works towards a stable financial position, whilst driving quality of service and meeting the needs of our residents. The Council successfully applied to the first round of the Swimming Pool Support Fund (revenue) to provide financial assistance with rising energy costs in August 2023. The second round of the Swimming Pool Support Fund (capital) was launched in September 2023. The Council are working with Freedom Leisure to submit an application, subject to meeting the funding criteria. The aim of the fund is to provide capital solutions to reduce energy costs and carbon output.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER KEY INFORMATION AS AT 30 September 2023

Ref No:	**C6**
Risk Name:	**Organisational Resilience Risk**
Risk Description:	**Reduced Organisational resilience may lead to reduced resources to support Council's service delivery and transformation.**
Risk Owner:	Chief Executive
Portfolio:	Resources
Gross Risk Scout (Without Controls in Place	Likelihood: 3 Impact: 5 Total Score: 15- RED
Residual/Net Risk Score (i.e. with controls in place)	**Likelihood: 3 Impact: 3 Total Score 9- Amber**
Overall Progress Summary:	The majority of services are operating normally but some services are continuing to experience capacity issues due to vacancies and problems in recruiting new staff especially in relation to technical and specialist staff. Officer capacity continues to be reviewed and work prioritised. The Council's new shared leadership team structure came into effect on 1 April 2023 and all posts are now filled with the exception of one. Work is underway to prepare for the consultation for the next stage of Shared Services, which is a review of the operational management tier.

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER KEY INFORMATION AS AT 30 September 2023

Ref No:	**C7**
Risk Name:	**Cyber Attack Risk**
Risk Description:	**Failure to repel or recover from cyber-attack including targeted ransomware, malware, and Distributed Denial of Service attacks**
Risk Owner:	Head of Transformation & Assurance
Portfolio:	Resources
Gross Risk Scout (Without Controls in Place	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Residual/Net Risk Score (i.e. with controls in place)	**Likelihood: 3 Impact: 3 Total Score 9 - AMBER**
Overall Progress Summary:	Cyber-attacks are a global issue, and the operating environment means that new risks and challenges are always developing, and attacks are becoming more sophisticated. The Technology Team has achieved Cyber Essentials Plus; this is a government-backed, industry-supported scheme to help organisations protect themselves against common online threats. About Cyber Essentials - NCSC.GOV.UK A Security Officer role has been created within the team as part of the localised restructure. Cyber Essentials Plus renewal is underway. PSN certification has been renewed. Working with National Cyber Security Centre (NCSC) on our Cyber action plan, meetings held quarterly.

As at September 2023

Agenda Item 3(e)

Internal Audit Update - October 2023

Committee:	Audit and Accounts
Date of Meeting:	13 December 2023
Report of:	Chief Internal Auditor & Risk Manager
Portfolio:	Resources Portfolio

1 Purpose of Report

1.1 To present to the Audit and Accounts Committee for information a progress report on the work of Internal Audit up to 31 October 2023.

2 Recommendation

2.1 That the Committee note the progress report.

Reasons for Recommendations

2.2 The Audit and Accounts Committee have responsibility for monitoring the work of Internal Audit.

3 Key Issues

3.1 Attached is a progress report showing the audits which have been issued between 1 April 2023 and 31 October 2023.

4 Relationship to Corporate Priorities

4.1 The system of internal controls reviewed by Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities. Management are responsible for the control environment and should set in place policies, procedures and controls to help ensure that the system is functioning appropriately

5 Report Detail

5.1 This report is a summary of the Internal Audit work between 1 April 2023 and 31 October 2023 and is a report of progress against the audit plan. **APPENDIX 1** contains progress monitoring information.

5.2 Whilst the number of audits completed appears to be on track for the year it should be noted that a number of the audits completed were carried forward from the 2022-23 Audit Plan This has caused delays in the commencement of some audits in the 2023-24 Audit Plan.

5.3 In addition, delivery of the 2023-24 Plan is going to be impacted by a member of the team leaving at the end of October. Options are currently being considered on how the vacancy will be covered in the short term and the longer term. The Audit Plan will need to be revised to reflect the reduction in resources available and a revised Audit Plan will be presented to the Audit Committee to approve at the next meeting.

5.4 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.

5.5 The table below gives a summary of the level of assurance for each of the audits completed in the period. More detailed information on each of the reports issued is contained in **APPENDIX 2**.

Number of Audits	Assurance	Definition
7	**Substantial** ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
2	**Partial** ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Number of Audits	Assurance	Definition
1	**Limited** !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	**No Assurance** ✖	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.

5.6 **APPENDIX 3** lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.

5.7 **APPENDIX 4** shows information relating to follow-ups.

6 Implications

6.1 Financial

Nil

6.2 Legal

Nil

6.3 Human Resources

Nil

6.4 Risk Management

Nil

6.5 Equalities and Diversity

Nil

6.6 Health

Nil

6.7 Climate Change

Nil

7 Appendices

Appendix 1: Progress Monitoring

Appendix 2: Audits Completed 1 April to 31 October

Appendix 3: Audits in Progress

Appendix 4: Follow-ups Completed 1 April to 31 October

8 Previous Consideration

None

9 Background Papers

None

Contact Officer:	Stephen Baddeley
Telephone Number:	01543 464415
Ward Interest:	None
Report Track:	Audit and Accounts Committee 13 December 2023 (Only)
Key Decision:	No

Appendix 1

Progress Monitoring

Number of Audits in Plan for 2023-24	Audits Completed to Draft	Audits In Progress	Percentage of Plan In Progress or Completed to Date
26	10	7	65%

The completed and in progress figures include audits from the 2022-23 Audit Plan which have been completed this year.

Level of Assurance	No Assurance	Limited	Partial	Substantial
Number of Audits Issued in Year to date	0	1	2	7

N/A is where the nature of the review did not enable an opinion to be issued on the area under review. This is normally where the focus is narrow or where a project is at an early stage of progress.

Appendix 2

Audits Completed 1 April to 31 October

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Agency Staff and Consultants (2022-23)	Transformation and Assurance	Draft	8	Limited !	• There is no corporate Policy/Process covering the use and procurement of Agency Staff • There is a need to provide training/awareness sessions for managers on the correct processes and legal requirements for the use of Agency staff. • IR35 Assessments are not always completed/retained on file. • Evidence of market testing/compliance with Procurement Regulations should be retained for Agency Staff. • Consideration should be given to the use of call-off contracts or framework agreements for areas who regular require agency staff. • Agency Staff should be provided with appropriate induction training relevant to their role and consideration given to developing a matrix of mandatory training (eg GDPR, Health and Safety Induction).
Landscape/Leisure Projects	Economic Development and Planning	Final	1	Partial ▲	It was found that a corporate risk register was not produced for all projects instead the team relied on the risk registers from the Contractors. This means that Council specific risks such as the failure of the Contractor were not recoded/assessed.

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Land Charges Transfer to Land Registry Project	Transformation and Assurance/ Regulatory Services	Final	5	Partial ▲	• There was no dedicated Project Manger or defined project team to oversee the project. • A documented agreed project plan was needed. • A decision needs to be made in relation to a replacement land charges system to support the
Council Tax Reduction Scheme	DCE - Resources and s151 Officer	Final	0	Substantial ✓	
Housing Benefits (2022-23)	DCE - Resources and s151 Officer	Final	0	Substantial ✓	
Treasury Management	DCE - Resources and s151 Officer	Draft	0	Substantial ✓	
Economic Regeneration Projects	Economic Development and Planning	Final	0	Substantial ✓	
UK Shared Prosperity Fund	Economic Development and Planning	Final	0	Substantial ✓	
Council Tax 2022-23	DCE - Resources and s151 Officer	Final	0	Substantial ✓	
National Non-Domestic Rates 2022-23	DCE - Resources and s151 Officer	Final	0	Substantial ✓	

Other Work Completed

- Disables Facilities Grant County Council Assurance Statement

Appendix 3

Audits in Progress

Audit	Head of Service
Car Parking	Operations
Risk Management	Transformation and Assurance
IT Resilience (IT Audit) (2022-23)	Transformation and Assurance
Remote Working (IT Audit) (2022-23)	Transformation and Assurance
Critical Applications Security (IT Audit) (2022-23)	Transformation and Assurance
Wireless Network Security (IT Audit) (2022-23)	Transformation and Assurance
Replacement Customer Relationship Management System	Transformation and Assurance
Disabled Facilities Grants	Wellbeing

Appendix 4

Follow-ups Completed 1 April to 31 October

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments/Key Issues
Building Control	Economic Development and Planning/ Regulatory Services	Partial ▲	4	1	0	5	Partial ▲	Work is still required to carry out a procurement exercise. This is awaiting a slot with the Procurement Team to progress the action.
Change Control (IT Audit) (2nd Follow-up)	Transformation and Assurance	Partial ▲	2	3	0	5	Partial ▲	Work was still required to document the change control process and produce terms of reference and minutes for the Change Advisory Board.
IT Strategy Resources and Operational plans (IT Audit)	Transformation and Assurance	Partial ▲	0	0	0	1	Partial ▲	A draft IT Strategy has been produced and is being reviewed alongside the zero-based budgeting exercise and as part of the development of a Transformation Strategy.
Corporate Complaints	Law and Governance	Partial ▲	3	0	0	3	Substantial ✓	

Agenda Item 3(f)

Annual RIPA Review

Committee:	Audit and Accounts
Date of Meeting:	13 December 2023
Report of:	Head of Law and Governance
Portfolio:	Resources Portfolio

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1 Purpose of Report

1.1 This annual report provides details of the use of powers under the Regulation of Investigatory Powers Act (RIPA) by the Council.

2 Recommendation

2.1 That the report be noted.

Reasons for Recommendations

2.2 This is an annual report to members, in accordance with good practice, and is for information only.

3 Key Issues

3.1 Local authorities carry out investigations for a variety of regulatory services. In carrying out these duties, they have general powers to conduct surveillance of individuals suspected of committing offences. The Regulation of Investigatory Powers Act 2000 (RIPA) was introduced to regulate public authority use of covert surveillance powers to ensure that any use is compliant with human rights.

3.2 The Home Office Code of Practice for Covert Surveillance and Property Interference, recommends that elected members of an authority should review the authority's use of RIPA and set the policy at least once a year.

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:

(i) Regular review of the Councils use of surveillance ensures that enforcement is carried out lawfully and proportionately and assists in improving community wellbeing.

5 Report Detail

5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) regulates the use of certain surveillance powers by public authorities, including:

- Directed Surveillance (covert surveillance conducted as part of a specific investigation likely to result in obtaining private information about an individual),
- Use of Covert Human Intelligence Sources (CHIS), and
- Access to communications data (e.g. details of subscribers to telephone numbers or email accounts)

5.2 The Council is a very rare user of these powers. However, it is important that it has sufficient oversight of its activities to ensure that any considered use is compliant with the subject's human rights.

5.3 The Home Office publishes national Codes of Practice on the use of RIPA powers by public authorities. The Council must have regard to the relevant Code of Practice whenever exercising powers covered by RIPA. The Investigatory Powers Commissioner conducts regular inspections of all public authorities to ensure compliance with RIPA, and the Codes of Practice. The Commissioner undertook a paper evaluation of the Councils RIPA functions in August 2023 and was satisfied that there was assurance of ongoing RIPA compliance at the Council. The next inspection will be due in 2026.

5.4 The Council has adopted its own Surveillance Policy to advise officers on RIPA obligations and to regulate any use of these powers. The Policy was last updated by Cabinet in September 2019 to reflect changes in the law and Codes of Practice. The policy is therefore up to date in that respect.

5.5 The Head of Law and Governance acts as the Senior Responsible Officer for RIPA, with oversight of the Councils internal procedures. The Legal Services Manager acts as the RIPA Co-ordinating Officer, ensuring that any request to use RIPA powers is co-ordinated through, and recorded in, a central register. The Legal Services Manager also acts as a source of advice to regulatory officers and supports the Senior Responsible Officer in keeping the Councils policy up to date.

5.6 As part of the policy, the use of any RIPA powers must first be approved by a Chief Officer trained to be a RIPA Authorising Officer. The Council has two Chief Officers who have received suitable training. If the Chief Officer gives approval, then an application must still be made to the Magistrates Court for independent judicial approval before the surveillance takes place (NB. the Office for Communications Data Authorisations gives judicial approval in respect of accessing communications data).

5.7 The Council has not used RIPA powers in the last 12 months.

6 Implications

6.1 Financial

None

6.2 Legal

Set out in the report

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

None

8 Previous Consideration

None

9 Background Papers

None

Contact Officer:	Ian Curran
Telephone Number:	01786 619220
Ward Interest:	None
Report Track:	Audit and Accounts Committee 13 December 2023 (Only)
Key Decision:	N/A