Public Document Pack

DARLINGTON
Borough Council

Audit Committee Agenda

10.00 am
Monday, 22 January 2024
Council Chamber, Town Hall, Darlington. DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting

2. Declarations of Interest

3. Minutes –
   Minutes of meeting held on 27 September 2023
   (Pages 3 - 8)

4. Annual Statement of Accounts 2021/22 and 2022/23 –
   Verbal Update from Ernst & Young the Council's External Auditors

5. Final Accounts Timetable For The Year Ending 31 March 2024 –
   Report of the Director of Operations
   (Pages 9 - 14)

6. Half Yearly Risk Management Report 2023 2024 –
   Report of the Chief Executive
   (Pages 15 - 34)

7. Audit Services Activity Report –
   Report of the Audit and Risk Manager
   (Pages 35 - 46)

8. Prudential Indicators and Treasury Management Strategy Report 2024-25 –
   Report of the Director of Operations

(Pages 47 - 78)

9. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting

10. Questions

Luke Swinhoe
Assistant Director Law and Governance

Friday, 12 January 2024

Town Hall
Darlington.

Membership
Councillors Baker, Durham, Garner, Henderson, Keir and McGill

If you need this information in a different language or format or you have any other queries on this agenda please contact Shirley Wright, Democratic Manager, Operations Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : shirley.wright@darlington.gov.uk or telephone 01325 405998

AUDIT COMMITTEE
Wednesday, 27 September 2023

PRESENT – Councillors Henderson (Chair), Baker, Durham and McGill

APOLOGIES – Councillors Garner and Keir

ABSENT –

ALSO IN ATTENDANCE – Councillor Porter

OFFICERS IN ATTENDANCE – Luke Swinhoe (Assistant Director Law and Governance), Brett Nielsen (Assistant Director Resources), Ian Miles (Assistant Director Xentrall Shared Services), Evans (Head of ICT), Lee Downey (Complaints and Information Governance Manager), Judith Murray (Finance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council) and Shirley Wright (Democratic Manager)

A13 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A14 MINUTES

Submitted – The Minutes (previously circulated) of the Audit Committee held on 19 July 2023.

RESOLVED – That the Minutes of the Audit Committee held on 19 July 2023 be approved as a correct record.

A15 ICT STRATEGY - IMPLEMENTATION PROGRESS REPORT

The Assistant Director Xentrall Shared Services submitted a report (previously circulated) to provide a six-monthly report to the Audit Committee on progress in relation to the implementation of the ICT Strategy.

It was reported that the current ICT Strategy focused on three strategic priorities, namely ICT Governance and Service Development; ICT Strategic Architecture; and Council Service Development and Transformation.

This submitted report summarised progress on the three strategic themes of the Strategy.

Particular references were made to the achievement of the full three-year external recertification in both Information Security Management and Quality Management Systems and the annual recertification to the Public Services Network (PSN) and to the procurement and management of a Microsoft licensing migration to the E5, Microsoft's flagship product, which gives greater overall security posture and earlier future access to additional services and features.

RESOLVED – That the report be noted.

A16 ETHICAL GOVERNANCE AND MEMBER STANDARDS - UPDATE REPORT

The Assistant Director Law and Governance submitted a report (previously circulated) updating Members on issues relevant to Member standards and ethical governance.

The submitted report gave members an update of information about issues relevant to member standards since matters were reported to the Committee in April 2023 and also set out a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council.

By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority; and it was reported that there were no particular issues of concern that had been identified from reviewing the data.

Discussion ensued on the increase in housing complaints which remained significantly higher than pre-pandemic levels and it was reported that housing complaints did increase during Covid, which, it was thought, could be attributed to more people being restricted to their homes during that period. There was also a backlog of repairs, due to maintenance staff not being able to visit residents' properties during that period which was now being monitored and managed.

Particular references were also made to the role of the Independent Person in Members' complaints and the process for dealing with those complaints and to the Induction Programme for Members following with 2023 Local Elections and the availability of Academy 10, the Council's on-line training system, modules to Members.

RESOLVED – That the report be noted.

A17 INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

The Group Director of Operations submitted a report (previously circulated) providing a six monthly update to the Audit Committee as required by The Systems and Information Governance Group (SIGG) and to outline planned developments of the information governance programme.

It was reported that the ongoing delivery of the information governance programme continued to provide the assurance required to reduce the information risks to an acceptable level and outlined the ongoing works.

It was also reported that, of the ongoing work, the area of highest priority was the Microsoft Office 365 Programme which was being rolled out across the Council, with a number of services now being fully operational through a Microsoft teams interface having had all files migrated into a Microsoft Teams structure

Discussion ensued on the progress made in achieving the 95 per cent completion target rate in relation to the Data Protection Act (DPA) training, which showed an increase from that reported to this Committee in April 2023.

RESOLVED – That the report and progress on the implementation of the Information Governance Programme be noted.

A18 ANTI FRAUD AND CORRUPTION STRATEGY

The Audit and Risk Manager submitted a report (previously circulated) to advise Members of the Anti-Fraud and Corruption Arrangements for the period 2023/24.

It was reported that estimates suggested that in excess of £300m was lost to fraud in local government and it was imperative to ensure that the Council's funds were not being lost to fraudsters.

Guidance and advice to authorities on managing its fraud risk was provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) which also co-ordinated an annual survey of fraudulent activity detected across local government and which had published a Code of Practice on Managing the Risk of Fraud and Corruption in October 2014.

It was reported that the Council's 2023/24 Strategy (also previously circulated) had been developed in line with CIPFA's code of practice and that the format of the strategy had been redefined from previous versions to improve its visual appeal and make it more effective.

The submitted report also gave an update on the progress against the actions identified in the 2022/23 Strategy.

RESOLVED – That the 2023/24 Anti-Fraud and Corruption Strategy be noted.

A19 MID-YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2023/24

The Group Director of Operations submitted a report (previously circulated) to seek Members approval of the revised Treasury Management Strategy, Prudential Indicators and provide Members with a mid-yearly review of the Council's borrowing and investment activities. It was reported that this Committee were requested to forward the revised Strategy and indictors to Cabinet and Council for their approval and to note the changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

It was reported that the mandatory Prudential Code, which governed Council's borrowing, required Council approval of controls, called Prudential Indicators, which related to capital spending and borrowing; and the indicators were set out in three statutory reports namely, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update (which follows Council approval in February

2023 of the 2023/24 Prudential Indicators and Treasury Management Strategy).

The key objectives of the three annual reports were set out in the submitted report, together with the key proposed revisions to the prudential indicators which related to a reduction in the Operational Boundary to £148.025 million and the Authorised Limit to £245.331 million to allow for any additional cashflow requirement.

Members were advised that, based on the first five months of 2023/24, the Council's borrowing and investments were forecast to be on target on the approved 2023/24 budget and that the Council's treasury management activities complied with the required legislation and meet the high standards set out in the relevant codes of practice.

Officers presented update information at the meeting and answered a number of technical questions from Members in relation to the report.

RESOLVED – That the submitted report be referred to Council via Cabinet and that it be advised that this Audit Committee approves the revised prudential indicators and limits; and notes the Treasury Management Budget (Financing Costs) projected outturn.

A20 AUDITOR'S ANNUAL REPORT

The Group Director of Operations submitted a report (previously circulated) together with the Auditor's Annual Report and Auditor's Certificate for 2020/21 (also previously circulated).

It was reported that the Auditor's Annual Report provided a high level summary of the results from the 2020/21 audit work undertaken by Ernst and Young LLP (EY), the Council's external auditors, for the benefit of Members and other interested stakeholders.

The Report and Certification confirmed that the Council's accounts gave a true and fair view for the year ending 31 March 2021 and that the Council had in place, proper arrangements to secure value for money in the use of its resources.

Resolved – That the Auditor's Annual Report and Auditor's Certificate be noted.

A21 AUDIT SERVICES ACTIVITY REPORT

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with a progress report of activity and proposed activity for the next period.

The submitted report outlined progress to date on audit assignment work, consultancy/contingency activity.

The submitted report provided Members with detailed feedback on the performance of the audit service and the position in relation to the completion of audit work, together with feedback on the management of the risks on the corporate risk register, audit results against a set of key governance processes, feedback on the work undertaken in the previous quarter and a summary of the work planned to be undertaken and progress against the audit balanced scorecard.

References were made to the procedures in relation to safeguarding vulnerable adults which required updating, client/passenger transport assessments and Officers and Members declarations of interests which were required to be declared.

RESOLVED – That the activity and results be noted and that the planned programme of work be agreed.

This page is intentionally left blank

AUDIT COMMITTEE
22 JANUARY 2024

FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2024

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the Final Accounts Closedown Timetable for 2023/24. This timetable details the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

Summary

2. Under the regulations it is the responsibility of the Group Director of Operations to sign and certify the unaudited SoA 2023/24 by no later than 31 May 2024 and it is also the responsibility of the Audit Committee to approve the audited set of accounts on or before 30 September 2024.

3. The final accounts timetable serves as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines. The enclosed timetable will aim to comply with the date of 31 May for the unaudited SoA so that there is less disruption to the normal work schedule of the Council.

Recommendation

4. Members are asked to note the key dates in the Final Accounts Timetable for 2023/24 detailed in Appendix 1.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2023/24 Statement of Accounts.

Elizabeth Davison
Group Director of Operations

Background Papers

Code of Practice on Local Authority Accounting in the UK 2023/24

Judith Murray: Extension 5204

S17 Crime and Disorder	There is no specific crime and disorder impact.
Health and Well Being	There is no specific heath and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	There is no specific relevance to the Council Plan beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit (Amendment) Regulations 2022 require that the responsible financial officer, by no later than the 31 May, signs and certifies that the SoA presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor, Mazars.

7. The Regulations then require that 'but not later than 30 September', approval needs to be given to the SoA by resolution of a committee, which for Darlington is the Audit Committee. This approval will take into account the views of the External Auditor.

8. The Final Accounts timetable **(Appendix 1)** is a tool for the effective management and monitoring of the process of closing the Council's accounts.

9. The timetable is compiled annually by Finance with input from services to ensure that deadlines are achievable and will lead to completion of a SoA for signing by the Section 151 Officer (the responsible financial officer) by the statutory deadline. New and amended processes are considered for the impact on the achievement of dates, as well as reference to the previous year's problems and meeting of deadlines.

10. The enclosed timetable will enable Finance to produce an unaudited SoA by the 31 May 2024, which will then not distract from the other 'business as usual' such as reviewing the Medium Term Financial Plan.

11. The Finance Manager closely monitors the achievement of the dates in the timetable throughout the final accounts period, following up delays and missed deadlines. This helps

to ensure that the overall timetable will be achieved and to identify improvements that can be made to the process.

Appendix 1

2023/24 Accounts - General Closure Timetable

Date for Completion		Item
March		
	29	On-line goods receipting of orders relating to 2023/24 to be completed (including order authorisation).
	29	End of facility for on-line processing of purchase invoices in Business World On! relating to 2023/24 to be posted to period 12 of that year.
	29	Capital Charges to revenue accounts
April		
	5	All interface files posted to Council's General Ledger
	5	Petty cash and stock valuation certificates, certified by authorised signatories, sent to Financial Services.
	5	Details of purchase invoices and sundry debtor accounts relating to 2023/24 not paid by 31/03/2024 to be given to Departmental Finance Teams for provision in 2023/24 accounts (invoice values above £500 only).
	12	Bank reconciliation to be completed
	12	Work in progress, Retentions & Income in Advance from Building Services included in accounts for both trading and client accounts. Expenditure provisions and provision for future losses for Trading Accounts in Place based Services.
	12	All expenditure and income relating to 2023/24 identified and included in accounts to enable progress of next stages of process.
	12	Control accounts balanced and all holding accounts cleared.
	12	Internal recharges completed including inter-departmental recharges.
	12	Intra-departmental apportionments and reallocations completed
	26	Comparison of out-turn income and expenditure with approved budgets - including analysis of significant variances and any resulting corrective action including coding corrections.
	26	Departmental Financing of capital expenditure.
	30	**Accounts Closed**
May		
	1	Commence process of consolidation of individual cost-centre and subjective level accounts into statutory format for Statement of Accounts (SoA).
	31	Produce signed unaudited Statement of Accounts.

Sept	30	Audit Committee Meeting – approval of Statement of Accounts
	30	Publication of audited Statement of Accounts

This page is intentionally left blank

AUDIT COMMITTEE
22 January 2024

HALF YEARLY RISK MANAGEMENT UPDATE REPORT 2023/24

SUMMARY REPORT

Purpose of the Report

1. To update Members on the approach to and outcomes from the Council's Risk Management processes.

Summary

2. Positive progress continues to be made within the Authority regarding the management of key strategic risks and with the work undertaken by officers to manage operational risks.

Recommendation

3. It is recommended this Risk Management Report be noted.

Reasons

4. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's approach to Risk Management.

Ian Williams
Chief Executive

Background Papers

(i) Council's Risk Management Strategy
(ii) Corporate and Group Risk Registers
(iii) Annual Risk Management Report to Audit Committee July 2023

Lee Downey 5451

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There is no specific health and well-being impact
Carbon Impact and Climate Change	There are no specific recommendations contained within the attached reports concerning Carbon Reduction.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally
Groups Affected	All groups are affected equally
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	For the purpose of the 'call-in' procedure this does not represent an urgent matter
Council Plan	Maintaining an appropriate oversight of risk will help contribute to the delivery of the Council Plan Objectives
Efficiency	Insurance premiums reflect the pro-active approach taken to risk management within the Council.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

Background

5. Risk Management is an essential part of effective and efficient management and planning and it strengthens the ability of the Council to achieve its objectives and enhance the value of services provided. It is also an important element in demonstrating continuous improvement as well as being part of the Council's Local Code of Corporate Governance that reflects the requirements of the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives and Senior Managers (CIPFA/SOLACE) Framework of Corporate Governance.

Information and Analysis

Strategic Risk Outcomes

6. A key element of the Council's planning process is that the areas of potential risk, which could adversely impact on the ability to meet objectives set out in the Council plan, are identified together with the officer responsible for managing that risk. These risks are plotted on to a standard likelihood and impact matrix. There is also reference to management controls in place and working. The shaded part of the matrix signifies the area above the 'risk appetite line'. Risks in this region require further specific management, i.e. they are priorities for improvement that have an appropriate improvement action plan.

7. Following a review of the Council's Risk Management Strategy, the risks plotted on the matrices are now categorised as Strategic Risks and linked to the relevant objective in the Council Plan, where appropriate. This is to ensure there is a greater focus on manging the risks to the Council delivering the objectives set out in the Council Plan and to ensure more effective management of inter-departmental risks. The revised risk matrices are attached at **Appendices A** and **B**.

8. All risks are continually managed during the year by Corporate and Departmental Management Teams including any emerging risks identified. In addition, Assistant Directors/Heads of Service are required to confirm in their Annual Managers Assurance Statements (MAS) that processes are in place to ensure that controls identified to support the positioning of risks on the risk matrices are in place and working.

9. The further detailed information contained in Appendix B, provided by appropriate departmental staff, details progress made on improvement actions for those risks identified as above the risk appetite line.

Operational Risk Outcomes

10. The Insurance Group continues to meet representatives of the Council's insurers to examine insurance claims. The insurers provide the group with an update in relation to trends and operational risks to enable continuous improvement to the risk management and health and safety culture within the organisation.

11. Health and Safety continues to be a key priority for the Council at all levels with work continuing to embed arrangements. The total number of reports to the HSE, as required by the Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) from April 2023 to date is nine. All accidents and ill health reports are investigated by management and the Health & Safety Team to establish the causes, to identify issues or trends and make recommendations to prevent reoccurrence.

12. Slips, trips, falls on the same level, followed by manual handling remain the accident categories with the highest number of minor incident reports. Targeted work with services continues with a focus on risk assessment reviews and training.

13. Near miss reporting continues to be promoted with the number of reports up on this time in the previous year. A strong near miss reporting culture helps reduce the likelihood of accidents taking place which could result in injuries or ill health.

14. Violence and aggression in the workplace remain a significant risk to council staff. Work has continued to promote and monitor the use of personal safety devices, with corporate wide use of the devices consistently good. A refreshed internal violence and aggression training course has recently been launched which is available to all services, covering legislation, Council arrangements, why violence happens and how it can be recognised and de-escalated.

15. A programme of health and safety audits has continued in 2023/24. In addition to ensuring compliance, the audit process provides information for the assessment of the overall performance and effectiveness of the health and safety management system, identifying areas for improvement. Six services have achieved full assurance (all controls in place and operating effectively, the system will achieve its objectives) with a further sixteen services receiving substantial assurance (the majority of controls in place and operating effectively although some control improvements required, the system should achieve its objectives).

16. It was previously reported that in March 2020 a new Street Works Permit Scheme has been implemented in Darlington. The Permit Scheme requires all works promoters to provide adequate information when they intend to undertake works in the carriageways, footways and verges within the adopted highway to enable us to understand and more easily manage the impact of these essential works on the highway network.

17. The third Annual Report on the scheme is available on the Council's website. There are no issues highlighted within this report. The new "Report It" website for highway & street lighting defects has now received over 5,000 reports since it was introduced in June 2021. An increasing proportion of reports are now coming directly through Report It. In 2022/23, 63% of reports were received via customers inputting details into Report It. In the first eight months of 2023/24, that figure had risen to 70%. In November 2023 a new option was added to Report It to allow blocked gullies to be reported via the system.

18. We continued with the micro-asphalt programme this year and a mild winter last year helped to reduce the number of potholes forming. We continue to carry out highway safety inspections at a suitable frequency to ensure that potholes are identified and repaired as soon as possible.

19. The work in recent years to convert the street lighting stock to LED lanterns continues to show benefits. As well as the reduction in carbon emissions and electricity costs there has been a decrease in the number of faults reported. Work is now underway to convert sign lanterns to LED.

20. The 2024/25 maintenance program of works is now being worked on and will be published on the Council's website in the new year. This includes looking at using alternative materials which will help to reduce our carbon emissions and prolong the life of some of our roads.

21. A total of 16 schemes will be completed as part of the 2023/24 program of works, including three footways, one back lane and six km of micro-asphalt surfacing.

22. The proactive tree risk management processes continues to provide positive results, enabling the Council to defend the majority of storm and subsidence compensation claims received.

23. In relation to sickness absence, the half-year position for days lost is 3.97% or 4.34 days per full time employee (FTE), this represents an improvement of 0.53 days per FTE (593 days in total) compared to the same period last year. The projected year end figures are 3.89% or 8.61 days, this is higher than our target, but an improvement on 2022/23 year end (4.39% / 9.665). As can be seen from the table below, from the information we received, although similar, we compare favourably with our neighbours.

Council	**Actual Days lost 2022/23**	**Actual Days lost 2023/24**	**Target 2023/24**
Darlington	4.87	4.34	8.2
Hartlepool	5.21	4.36	9.0
Redcar & Cleveland	4.44	4.38	8.0
Stockton	4.9	4.9	9.0

24. Absence nationally across all sectors is on the rise, the Chartered Institute for Personnel & Development (CIPD) found that the average number of days lost per employee now stands at 7.8 days, this figure was 5.8 days in 2019. CIPD noted that since 2019, external events such as COVID 19, economic problems, the cost-of-living crisis and war have had far reaching impacts on people's wellbeing.

25. The management of sickness absence is a high priority for managers and HR with absence being actively monitored and actions taken appropriate to each case and in accordance with the absence management policy. Actions have included sickness absence review meetings, setting of improvement targets and formal monitoring/reviewing, extensions of probation period, non-confirmation of employment after probationary period, formal caution, redeployment to alternative roles and ill health capability dismissals.

26. Management and HR continue to be supported by a proactive Occupational Health Team. With over 197 new referrals being undertaken to date and 72 review meetings alongside escalating to an Occupational Health Doctor for advice as required. The Occupational Health Team supports the employee and manager by suggesting recommendations to allow an employee to return to work.

27. As well as sickness absence, the Occupational Health Team also provide proactive health surveillance to monitor and ongoing work risk ensuring our employees can undertake their work without risk to their health.

28. Together with the reactive measures above, we have also continued to promote proactive, preventative initiatives such as Counselling, Physiotherapy, Stress Risk Assessments, Flu vaccinations and offered various courses and sessions around resilience and mental health. We delivered 370 flu vaccinations to Council employees.

29. We have a number of new initiatives which we plan to roll out from January 2024, including Occupational Health referrals to the Dolphin Centre, review of the Menopause Policy and guidance, our January 'let's do this' Wellness campaign and the launch of our new employee engagement web page, which will be accessible to all employees via smart devices as well as PCs.

Conclusion

30. The Council's pro-active approach to risk management continues to produce positive results for the Authority.

Outcome of Consultation

31. There has been no formal consultation in the preparation of this report.

APPENDIX A

COUNCIL PLAN OBJECTIVES

Council Plan Objective	Strategic Risk(s) relevant to delivery of Council Plan Objective
CP1 - Growing Darlington's economy	SR1, SR7, SR8, SR10, SR13, SR14, SR22, SR23, SR24, SR33, SR34, SR35, SR36, SR39, SR40, SR47
CP2 - Maximise the potential of our young people	SR17, SR19, SR21, SR23, SR28, SR31, SR35, SR36, SR38, SR42, SR48, SR49
CP3 - Supporting the most vulnerable in the borough	SR3, SR15, SR18, SR16, SR17, SR18, SR20, SR21, SR22, SR23, SR24, SR26, SR27, SR28, SR29, SR35, SR36, SR38, SR42, SR43, SR44, SR45, SR46, SR48, SR49
CP4 - Working with communities to maximise their potential	SR35, SR36, SR37, SR48
CP5 *- A dedicated workforce who are proud to serve the borough and an accessible, effective and engaged council**	SR41

**While not a Council Plan objective the objectives are supported by…*

APPENDIX B

RISK MATRIX

STRATEGIC RISK REGISTER

LIKELIHOOD					
	A Very High				
	B High			**SR21, SR48**	
	C Significant		**SR11, SR13, SR41, SR45**	**SR8, SR15, SR16, SR20, SR34, SR35, SR44**	
	D Low		**SR12**	**SR3, SR6, SR7, SR10, SR14, SR17, SR18, SR19, SR22, SR23, SR24, SR25, SR26, SR31, SR33, SR36, SR37, SR38, SR39, SR40, SR42, SR46, SR49**	**SR27**
	E Very Low		**SR1**		**SR47**
	F Almost Impossible				
		IV Negligible	III Marginal	II Critical	I Catastrophic
IMPACT					

STRATEGIC RISK REGISTER

Risk No. & relevant Council Plan objective(s)	Risk	Responsible Person	Movement in Period	Reason for Movement on Matrix	Progress on Action Plan for Risks Above the Appetite Line that have not moved
SR1 **(CP1)**	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management	Ant Hewitt	None at E/III		
SR3 **(CP3)**	Business Continuity Plans not in place or tested for key critical services	Mark Ladyman	None at D/II		
SR6	Risk of regulatory action and increased costs resulting from PCI-DSS Non-Compliance	Elizabeth Davison	None at D/II		
SR7 **(CP1)**	Financial implications of maintaining and conserving key corporate assets within the borough	Dave Winstanley	None at D/II		
SR8 **(CP1)**	Investment in regeneration projects is not delivered	Ian Williams	None at C/II		See paragraph 1 (a) i below

SR10 (CP1)	Planning Performance at risk of Standards Authority intervention	David Coates	None at D/II		
SR11	VAT partial exemption breech due to exempt VAT being close to the 5% limit	Brett Nielsen	None at C/III		
SR12	Fraud in General	Andrew Barber	None at D/III		
SR13 (CP1)	Instability within financial markets adversely impacts on finance costs and investments	Brett Nielsen	None at C/III		
SR14 (CP1)	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	Anthony Sandys	None at D/II		
SR15 (CP3)	**Risk Re-worded** Inability to cope with significant increase in homelessness cases	Anthony Sandys	None at C/II		See paragraph 1 (a) ii below
SR16 (CP3)	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	Chris Bell	None at C/II		See paragraph 1 (a) iii below

SR17 (CP2, CP3)	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	Chris Bell	Reduced to D/II ↓	Workforce stability strategy has been implemented. Staff turnover rates reduced from 19.3% in the period October 2021 – September 2022 to 17.6% in October 2022 – September 2023. We currently have 3 social work vacancies across Children's Services, this time last year we had 10.6 in Assessment & Safeguarding.	
SR18 (CP3)	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	Joss Harbron	None at D/II =		
SR19 (CP2)	Failure to identify vulnerable schools and broker appropriate support to address needs	Tony Murphy	None at D/II =		

SR20 (CP3)	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	Joss Harbron	None at C/II =		See paragraph 1 (a) iv below
SR21 **(CP2, CP3)**	Increased demand for Children's Services impacts negatively on budget	Chris Bell	None at B/II =		See paragraph 1 (a) v below
SR22 **(CP1, CP3)**	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	Christine Shields	None at D/II =		
SR23 **(CP1, CP2, CP3)**	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	Christine Shields	None at D/II =		
SR24 **(CP1, CP3)**	**Risk Re-worded** Market (Domiciliary Care Residential Care providers) failure as a result of increased transmissibility of new Covid variants and other viruses.	Christine Shields	None at D/II =		
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	Joss Harbron	None at D/II =		

SR26 **(CP3)**	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	Joss Harbron	None at D/II		
SR27 **(CP3)**	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures	Chris Bell	None at D/I		See paragraph 1 (a) vi below
SR28 **(CP2, CP3)**	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway	Miriam Davidson	Removed from D/III	Contracted is now embedded and working well.	
SR31 **(CP2)**	Failure to maintain dedicated home to school transport services	Tony Murphy	None at D/II		
SR33 **(CP1)**	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities	Ian Thompson	None at D/II		

SR34 (CP1)	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands	Ant Hewitt	None at C/II		See paragraph 1 (a) vii below
SR35 (CP1, CP2, CP3, CP4)	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	Ant Hewitt	None at C/II		See paragraph 1 (a) viii below
SR36 (CP1, CP2, CP3, CP4)	Failure to meet the Council's commitment to becoming Carbon neutral by 2040	Mark Ladyman	None at D/II		
SR37 (CP4)	Failure to operate an effective Channel Panel	Dave Winstanley	None at D/II		
SR38 (CP2, CP3)	Reputational and regulatory risk if reinspection not successful	Tony Murphy	None at D/II		

SR39 (CP1)	The Council is unable to deliver housing targets detailed in the Local Plan as a result of the designation of nutrient neutrality catchment area	Mark Ladyman	Reduced to D/II	Nutrient Neutrality remains a risk for the Council in regard to meeting its housing targets. Clarity of the procedure for developers to obtain the necessary credits has now been published by Natural England. However these are costly and the availability of credits is not guaranteed. Developers will be required to evidence that they have the necessary credits to obtain planning approval.	
SR40 (CP1)	Managing the impact of severe weather events	Mark Ladyman/Ian Thompson	None at D/II		
SR41 (CP5)	Staffing risk – failure to recruit to vacant posts	Brett Nielsen	None at C/III		
SR42 (CP2, CP3)	Risk of enforcement action from the ICO in relation to subject access requests (SARs)	Luke Swinhoe	None at D/II		

SR44 (CP3)	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. The significant demands on adult social care, the pressures following covid and the workforce recruitment and retention issues may impact on the ratings resulting in a "requiring improvement" outcome	Joss Harbron	None at C/II		See paragraph 1 (a) ix below
SR45 (CP3)	Potential increase in Asylum Seeker numbers in Darlington as a result of the Government's full dispersal plan that could see numbers double in the next year and the impact on services	Anthony Sandys	None at C/III		
SR46 (CP3)	Adult social care waiting lists	Joss Harbron	None at D/II		
SR47 (CP1)	Risk of a terrorist attack within the borough	Dave Winstanley	None at E/I		

SR48 (CP2, CP3, CP4)	**New Risk** Budget pressures, lack of funding and affordability of services impact on the Council's ability to deliver its Council Plan objectives	Elizabeth Davison/Brett Nielsen	New at B/II ↑		See paragraph 1 (a) x below
SR49 (CP2, CP3)	**New Risk** Failure to keep to the terms of the Safety Valve Agreement to manage deficit in High Needs Budget	Tony Murphy	New at D/II ↑	While this is a risk, it is relatively low at present as we are currently on track to meet the terms of the agreement.	

1.

a) **Strategic Risks** (Appendix B) – nine risks have been identified as above the risk appetite line.

i. **(SR8) Investment in regeneration projects is not delivered.**

Within the construction industry there continues to be issues with rises in material prices and high demand for trades and resource to deliver projects of all sizes. These issues are across all sectors, both private and public. Projects developed prior to these issues materialising may not have built in contingencies into the budget or programme to absorb this. Therefore, this will require Programmes & Projects to be reviewed on an individual basis for affordability and deliverability as costs and programmes are finalised. Future project budgets will have inflation allowance built in linked to the proposed start and finish dates. Furthermore, we are exploring additional sources of external funding e.g., Government grants and more effective partnerships working to share the risk. It is anticipated that as inflation reduces so too will the level of risk.

ii. **(SR15) Inability to cope with significant increase in homelessness cases**

Additional funding has been provided by the Department for Levelling Up, Housing and Communities (DLUHC) for homeless services. More accommodation and support has been commissioned to cope with increased demand and additional staff have been recruited to the Housing Options Team. However, demand for emergency accommodation has remained high with the shortage of appropriate move on accommodation exacerbating the issue.

iii. **(SR16) Inability to contain placement costs for children looked after**

A full Transformation and Efficiency programme is being delivered with the key objective of developing sufficient provision within or close to Darlington that meet the needs of looked after children. This includes in-house foster care, residential care and specialist provision for complex needs. Due to the changing complexities and the demand for placements not just locally, but also regionally and nationally, the work will be informed by other localities, and joint working will take place where this can add value.

iv. **(SR20) Increased demand for Adult Services impacts negatively on plans for budget efficiencies**

There is increasing demand for adult social care and support specifically domiciliary care, aides, adaptations and support for people with significant learning disabilities. People are living with multiple conditions and disabilities and require intensive support to remain at home and as independent as possible. Covid has also had a significant impact on people's wellbeing and support needs. Adult Social Care will continue with the Transformation Programme and ensure that all assessments are strength based and outcome focussed with the support of the local community. Performance, practice and quality will be continuously monitored and reviewed to ensure we reduce, delay and prevent people from requiring care and support prematurely. Funding streams and grants from the Department of Health & Social Care will support the demand management and provide some temporary cost mitigation. However, with the introduction of the Integrated Care Systems there is further dialogue required to understand the resources available to support post covid recovery.

The increased demands in adult social care have resulted in waiting lists for reviews and assessments. These are mitigated by a risk management matrix to prioritise people with high needs or significant carer issues. With support from the Department of Health and Social Care (DHSC) social discharge fund we have increased workforce capacity through agency, additional hours and fixed term contracts to manage demand however this is currently short-term funding.

v. **(SR21) Increased demand for Children's services impacts negatively on budget**

Work is ongoing within the Transformation Programme to safely reduce the level of risk in children's services. Input to this work has been enhanced with colleagues from Leeds City Council under the DfE sponsored Strengthening Families Programme. The ethos of the work is continuing despite the programme formally ceasing. Childrens Services have also devised a Placement Sufficiency strategy based upon increasing our in house fostering and residential provision to create more cost effective ways of caring for our children and providing greater stability and better outcomes. The strategy has been supported by Cabinet and is progressing to full Council in January 2024.

vi. **(SR27) Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures**

Services are in place to screen contacts and referrals, and to respond should concerns be identified. Pathways for intervention are both internal and multi-agency, and the Council ensures that its own staff understand and apply them robustly.

vii. **(SR34) Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands**

Whilst inflation within the construction industry has softened, material prices remain high and demand for trades and resource to deliver projects of all sizes remains an issue. These issues are across all sectors, both private and public. Projects developed prior to these issues materialising may not have built in contingencies into the budget or programme to absorb this. Therefore, this will require Programmes & Projects to be reviewed on an individual basis for affordability and deliverability as costs and programmes are finalised. Future project budgets will have inflation allowance built in linked to the proposed start and finish dates. It is anticipated that as inflation reduces so too will the level of risk.

viii. **(SR35) Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn.**

Bus patronage suffered significantly through the pandemic and post covid passenger numbers have not recovered to previous levels, putting the viability of commercial services at risk. Additional Government funding has been made available to Tees Valley Combined Authority (TVCA) as the Transport Authority to support services at risk and this has been used to secure a number of services in Darlington. However, this funding is time limited and we are working with TVCA and operators to understand how we can support the network.

ix. **(SR44) April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. The significant demands on adult social care, the pressures following covid and the workforce recruitment and retention issues may impact on the ratings resulting in a "requiring improvement" outcome.**

Adult Services have an implementation plan in place, containing identified actions to complete including, user feedback and engagement, evidence of quality of practice and outcomes and strategic leadership and engagement.

x. (SR48) DRAFT - New Risk Budget pressures, lack of funding and affordability of services impact on the Council's ability to deliver its Council Plan objectives

The Council is facing unparalleled financial challenges stemming from a reductions in public funding and increases in demand. This has been further compounded by the current economic climate, the increase in the cost of living, income deprivation and poverty rising. There are a number of existing risks built in the risk matrix concerning demand (e.g. Children's and Adult services), inflationary pressures (capital) and reduced income. A shortfall in funding to cover rising demand and cost of service provision is now impacting on all service areas and with limited discretionary service provision, without additional funding there is a high likelihood the Council will not be able to meet it statutory duties in their current form in the future. As part of MTFP planning the Council is facing these challenges, however with each increase in demand and reduction in Government funding this risk is becoming higher.

Savings of £4m have been identified in the 2024/25 MTFP which do not significantly impact on front line services and a 4.99% increase in council tax and social care precept has been proposed to generate circa. £3.1m. Economic growth remains a key focus to generate additional income and work is being undertaken to review all service areas, including cost challenge and best practice comparisons.

AUDIT COMMITTEE
22 JANUARY 2024

ITEM NO.

AUDIT SERVICES – ACTIVITY REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report of activity and proposed activity for the next period.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity.

Recommendation

3. It is recommended that the activity and results be noted and that the planned work is agreed.

Reasons

4. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Andrew Barber
Audit & Risk Manager

Background Papers

(i) Internal Audit Charter
(ii) Departmental Audit Reports

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	Maintaining an appropriate oversight of risk & controls will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

5. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.

6. Appendix 1 provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work.

7. The first section of the report is to provide members with feedback on the management of the risks on the corporate risk register. This has been updated to reflect changes to the corporate risk register.

	Comments
Overall Position	The majority of risks have assurance over 75%, previously reported: SR25 – The control around procurement of DoLs assessors is marked as amber due to impending changes in the process.

	SR26 – Procedures have not been updated since 2021, a new officer is due to commence in Sept 2023 who will be responsible for updating the procedures.
Emerging Issues	No change from the previous report so no new emerging risk areas.

Assurance by Risk

Rsk Ref	Risk	Assurance
SR10	Planning Performance at risk of Standards Authority intervention	100.00
SR12	Fraud in general	100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments	100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims	100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID.	100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements	100.00
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service	100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service	100.00
SR19	Failure to identify vulnerable schools and broker appropriate support to address needs	100.00
SR20	Increased demand for Adult Services impacts negatively on plans for budget efficiencies	100.00
SR21	Increased demand for Children's Services impacts negatively on budget	100.00
SR22	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage	100.00
SR23	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure	100.00
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge	62.50
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures	70.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.	81.82
SR28	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.	100.00
SR29	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment In Darlington through Empowerment (STRIDE).	100.00
SR3	Business Continuity Plans not in place or tested for key critical services	97.33
SR33	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities	100.00
SR34	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands	100.00
SR35	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn	100.00
SR36	Failure to meet the Council's commitment to becoming Carbon neutral by 2050	100.00
SR38	Reputational and regulatory risk if reinspection not successful	93.65
SR40	Managing the impact of severe weather events	100.00
SR42	Risk of enforcement action from the ICO	100.00
SR43	Risk of new dangerous variant or a significant wave of COVID-19 impact on the Council's ability to provide services as a result of a new dangerous variant or a significant wave of COVID-19 or the activation of UKHSA Contingency plan	100.00
SR44	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. Due to the significant demands on adult social care, the pressures following covid, and the workforce recruitment and retention crisis will impact on the ratings- resulting in an "requiring improvement" outcome.	87.13
SR7	Financial implications of Maintaining and conserving key capital assets within the borough	100.00
SR8	Investment in regeneration projects is not delivered	100.00

8. The next section breaks down audit results against a set of key governance processes.

	Comments
Overall Position	The majority of themes are showing a positive level of assurance overall, some of the areas shown as below 75% have been reported previously.
Emerging Issues	Completion of Children's assessments currently well below target. New working practices have been introduced to try and improve performance. Passenger Transport Risk Assessments are not up to date, this has previously been reported and progress is being made to improve the situation but these are still not fully up to date. Mandatory Information Governance Training still remains below the target completion rate of 95%, it should be recognised that this is an expectation of the information commissioner and is a challenging target given staff turnover numbers.

Results by Theme

Theme	1 Red	2 Amber	3 Green	Total
1. Accuracy of Decision Making	1	2	54	**57**
10. Accuracy of Payments	1		20	**21**
11. Income - Charging		1	6	**7**
12. Income - Payments		1	9	**10**
13. Cash Handling			2	**2**
14. Procurement/Sourcing		2	16	**18**
15. Physical Assets/Locations		2	25	**27**
16. Fraud	1		11	**12**
17. Business Continuity			14	**14**
18. Procedures		1	11	**12**
19. Performance Management		2	32	**34**
2. Monitoring of Decisions		4	22	**26**
20. ICT Infrastructure		2	18	**20**
21. Handling of Requests/Incident Response		1	12	**13**
3. Information Governance	1	6	44	**51**
4. Finance			25	**25**
5. HR - Payments			4	**4**
6. HR - Health & Safety	1		4	**5**
7. HR - Management	2	2	9	**13**
8. Recruitment		1	3	**4**
9. HR - Training/Qualifications/Clearances	10	3	18	**31**
Total	**17**	**30**	**359**	**406**

Assurance by Theme

Theme	Assurance
1. Accuracy of Decision Making	95.31
10. Accuracy of Payments	96.55
11. Income - Charging	95.83
12. Income - Payments	94.83
13. Cash Handling	100.00
14. Procurement/Sourcing	93.84
15. Physical Assets/Locations	95.54
16. Fraud	92.31
17. Business Continuity	100.00
18. Procedures	94.44
19. Performance Management	98.48
2. Monitoring of Decisions	91.98
20. ICT Infrastructure	91.92
21. Handling of Requests/Incident Response	97.78
3. Information Governance	91.90
4. Finance	100.00
5. HR - Payments	100.00
6. HR - Health & Safety	69.57
7. HR - Management	64.13
8. Recruitment	90.63
9. HR - Training/Qualifications/Clearances	59.42
Total	**91.11**

Overall Results

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red		3	11	2	1	**17**
2 Amber		14	9	3	4	**30**
3 Green	11	150	127	55	16	**359**
Total	**11**	**167**	**147**	**60**	**21**	**406**

Results in Period

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red			1	1	1	**3**
2 Amber		1	1	1	3	**6**
3 Green	1	22	31	13	12	**79**
Total	**1**	**23**	**33**	**15**	**16**	**88**

9. The next section looks at service area and provides feedback on the work undertaken in the previous quarter and a summary of the work planned to be undertaken.

	Comments
Overall Position	The majority of controls are rated Green. Public Health assurance levels have improved over the period.
Emerging Issues	See previous section.

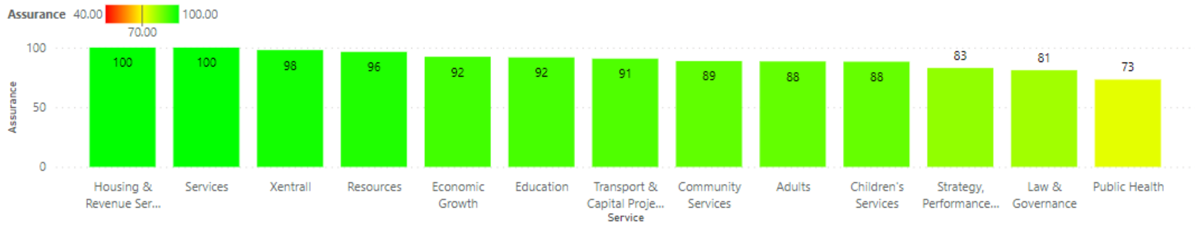
Results by Service

Service	1 Red	2 Amber	3 Green	**Total**
Adults	1	5	30	**36**
Children's Services	3	4	47	**54**
Community Services	2	8	44	**54**
Economic Growth	1	2	23	**26**
Education	1	2	23	**26**
Housing & Revenue Services			20	**20**
Law & Governance	4	4	24	**32**
Public Health	2		5	**7**
Resources	1		41	**42**
Services			2	**2**
Strategy, Performance & Communications	1	1	10	**12**
Transport & Capital Projects	1		12	**13**
Xentrall		3	71	**74**
Total	**17**	**29**	**352**	**398**

Recommendations

Service	Agreed	Draft	Implemented	Not Implemented	Risk Tolerated	**Total**
	1		2	1		**4**
Adults	1		4	1		**6**
Children's Services	4		6	1		**11**
Community Services	5	1	7	1		**14**
Economic Growth	1		7	1	1	**10**
Education	2		1	1		**4**
Housing & Revenue Services			4			**4**
Law & Governance			7	3		**10**
Public Health			2	1		**3**
Resources		2	1	1		**4**
Strategy, Performance & Communications			2		1	**3**
Transport & Capital Projects			2	1		**3**
Xentrall	1	1	3			**5**
Total	**15**	**4**	**48**	**12**	**2**	**81**

Assurance by Service



10. The penultimate section is progress against our balanced scorecard. The key measures in this section are adequate resources and portfolio coverage. In terms of adequate resources we aim to have 15 days capacity spare to deal with any issues that may arise. Portfolio coverage identifies the number of controls that should be tested in the period, we were on target for the previous period. Productivity is slightly below target due to the amount of annual leave taken during the period.

Stewardship (Coverage)			Stakeholders		
Measure	Target	Actual	Measure	Target	Actual
Adequate Resources	15	21	Reporting	Qtrly	*
Portfolio Coverage	84	86	Fraud Strategy	November	*
Annual Report	June	*	Satisfaction	TBC	*
Activity	Qtrly	*	Recommendation Implementation	TBC	*

Process			People		
Measure	Target	Actual	Measure	Target	Actual
PSIAS Internal Review	March	*	Productivity	75%	75%

PSIAS External Review	March 2023	*	Training	20	12
Staff Meetings	8	8	Code of Conduct	100%	*
Audit Manual Update	March		Appraisals	100%	*

*- to be reported annually

11. The final section of the report (Appendix A) is a full list of controls to be examined in the next period in priority order.

12. I currently do not have any concerns over the resourcing levels of the service or any impairment of the independence of the service to report to members.

Outcome of Consultation

13. There was no formal consultation undertaken in production of this report.

ID	Control	Frequency
105	Update and report the strategic corporate risk register.	3
661	Youth Employment Initiative financial claims are submitted in an accurate and timely manner.	3
78	Focussed financial support to commercial ventures	6
88	An approved Council Plan is in place which sets out the priorities of the council.	6
174	Adult Social Care cases are allocated appropriately considering caseloads and qualification requirements.	6
182	Where the Authority has Deputyship/Appointeeship, appropriate authorisation/legal documentation is in place.	6
218	Posts requiring a DBS check are identified and requirements are in line with legislation.	6
283	Disposals of ICT equipment are undertaken in an appropriate manner in line with an adequate and appropriate official disposal policy.	6
476	Accurate and up to date MTFP projections for future years	6
535	Children have been matched with appropriate adopters	6
577	The correct charges are raised for Housing Rents.	6
832	Decisions are made in line with The Adoption Agencies Regulations 2005.	6
23	Assessment and appointment of suitable in-house foster carers.	12
24	Appropriate arrangements are in place to assess the suitability of adopters.	12
64	Clear acquisition, disposal and revaluation process for land and buildings.	12
68	Clear budget process and timetable is in place which could be followed by team members as and when required.	12
86	Undertake forward planning and projections of external factors in respect of income and expenditure and feed into MTFP.	12
97	Prepare statement of accounts	12
114	Vehicles used in the provision of Community (SBC) and Passenger (DBC) Transport services are suitable and meet requirements for servicing and road worthiness.	12
132	Free school meals are provided to eligible pupils.	12
175	Adult Social Care referrals and assessments are processed in an accurate and timely manner, with decision making and actions fully documented.	12
184	Accurate charges for contributions to care costs are made to service users.	12
228	Venues for events are appropriate.	12
249	Timely and accurate financial assessments are undertaken for service users wishing to take up a service.	12
295	Appropriate formal documented ICT project management standards/policies have been established.	12
303	An appropriate infrastructure is in place to facilitate the organisation's firewalls.	12
356	Address patterns of absence and promote regular attendance at school.	12
361	Training, support and development is in place for adoptive parents and families.	12
363	Procedures are in place for the referral, matching and placement of children for adoption.	12
397	Economic Growth Strategy and Economic Growth Plan is monitored and milestones achieved.	12
399	Support is provided to new and existing businesses.	12
405	Effective management of grants received to support jobs and growth.	12
416	Trading standards investigations are recorded accurately either as a result of a programmed inspection or in response to a complaint and the results circulated as necessary including general guidance as necessary.	12
464	Effective commissioning and procurement of public health services and programmes.	12
539	Monitoring is undertaken of care packages for continued suitability.	12
572	The decision to provide additional support to adoptive families is appropriate.	12
573	Where there is a shortfall in specialist housing facilities managed by the authority to meet demand, external provision is effectively sourced.	12

ID	Control	Frequency
662	Sufficient performance monitoring is in place to ensure the aims and objectives of the Youth Employment Initiative programme are being successfully achieved.	12
740	Staff within Transport and Capital projects have completed mandatory information governance training.	12
741	Staff within Public Health have completed mandatory information governance training.	12
742	Staff within Children's Services have completed mandatory information governance training.	12
743	Staff within Adults Service have completed mandatory information governance training.	12
744	Staff within Education services have completed mandatory information governance training.	12
745	Staff within Economic Growth have completed mandatory information governance training.	12
747	Staff within Strategy, performance and communications have completed mandatory information governance training.	12
748	Staff within Housing and Revenue services have completed mandatory information governance training.	12
749	Staff within Law & Governance have completed mandatory information governance training.	12
795	Staff within Community Services have completed mandatory information governance training.	12
812	Staff within Commissioning, performance and transformation have completed mandatory information governance training.	12
831	Placement numbers and service demand are monitored regularly.	12
833	Suitable arrangements are in place with regional VAAs.	12
834	Partnership model is approved and complied with.	12
837	Risk register is subject to periodic review and is up to date.	12
842	Regular monitoring of children and adopter progress to ensure timeliness of process in line with Government targets	12
844	Strategic priorities are identified and monitored	12
847	Adequate safeguarding policy and procedures are in place.	12
851	All significant events relating to the protection of children are notified to the appropriate authorities.	12
875	Performance oversight and reporting in line with the terms and conditions of the youth justice grant.	12
21	A robust training and support regime is in place for new teachers.	18
40	School places have been allocated in accordance with admissions policies.	18
77	Financial appraisal completed as part of business case/options appraisal	18
116	Council employed drivers and passenger assistants hold the necessary clearances, licences, qualifications and training.	18
130	Catering and cleaning staff have been subject to appropriate disclosure checks.	18
141	Sensitive personal information in relation to OneCall (SBC) and Lifeline (DBC) clients is managed in line with GDPR requirements.	18
183	Where legal charges have been placed on a service user's property, appropriate deferred payment/legal documentation is in place.	18
189	Professionals are appropriately trained and qualified to undertake BIA/DoLS assessments.	18
190	Professionals employed to undertake DoLS assessments are procured and employed via correct processes.	18
221	Information security and sharing protocols in relation to occupational health and employee therapy provision is in line with data protection legislation.	18
310	HMRC reporting requirements are being complied with.	18
362	Financial support provided to adoptive families is paid accurately and timely.	18
383	Strategic plans and framework are in place to tackle poverty.	18
413	Licence applications are subject to appropriate review and approval, evidence of background and eligibility.	18

ID	Control	Frequency
415	A programme of trading standards inspections and sample tests has been identified using a risk assessment process.	18
417	Compliance with licence conditions is monitored and appropriate sanctions taken when necessary.	18
449	Cemeteries and memorials are well maintained and health and safety risks managed.	18
450	Crematorium inspection and monitoring to reduce the impact of emissions.	18
467	A Gypsy Traveller Accommodation Assessment (GTAA) is undertaken to identify pitch requirements.	18
474	Appropriate ICT solutions are in place to facilitate the sharing of sensitive information/files with external partners/individuals.	18
486	Information relating to adopters is accurately recorded and up to date.	18
487	Adopter suitability appeals are appropriately managed.	18
494	Leisure provision requirements are understood and effectively sourced.	18
510	Monitoring is undertaken to ensure compliance with planning decisions and appeals are handled appropriately.	18
511	Inspections of building work are undertaken to ensure compliance.	18
513	Building control decisions are accurately recorded.	18
537	Accurate and up to date information is recorded for adoption cases.	18
836	Data sharing arrangements are in place and information is safeguarded.	18
839	Marketing strategy is in place and monitored effectively.	18
840	Staff hold appropriate qualifications, DBS clearances, and receive regular training.	18
841	Adopters are subject to appropriate DBS and safeguarding checks.	18
843	Early Permanence arrangements are appropriately managed	18
845	Appropriate medical advisors have been appointed.	18
846	Cases are allocated appropriately and supervision arrangements are in place.	18
849	Progress against development plans is monitored	18
850	Compliance with Department for Education (DfE) funding terms and conditions for grant payments received.	18
852	Procedures are in place for the recruitment and maintenance of the central list of persons suitable for the adoption panel	18
129	Payments for cleaning supplies are accurate and in accordance with the contract.	24
166	Staff involved in adult referrals and assessments appropriately qualified and have appropriate DBS clearances.	24
203	Website and Intranet content is relevant and up to date.	24
210	Accurate and up to date records are maintained for all legal services provided.	24
238	Learning and Skills course fees are set appropriately and income taken is held securely and adequately accounted for.	24
241	Adult Learners and Apprentices details are accurate, up to date and safeguarded.	24
266	Appropriate controls and systems are in place to ensure all car parking income is accounted for in the authority's accounts.	24
312	The organisation's establishment is authorised by the managing body.	24
432	On-site concessions are managed and procured appropriately.	24
440	Effective procurement of waste and recycling contracts.	24
475	Records relating to housing and housing related developments are accurate, up to date and appropriately safeguarded.	24
482	Effective working relationships with staff forums and other employee groups such as unions.	24
483	Payments made to external providers of short breaks for young people with complex and additional needs are accurate and timely.	24

ID	Control	Frequency
495	Income/payments relating to on-site concessions are accurate.	24
501	Payments for catering supplies are accurate and in accordance with the contract.	24
515	Fees for building control applications have been set appropriately.	24
545	There is an effective appeals process for transport eligibility decisions.	24
687	National Fraud Initiative (NFI) matches in relation to Council Tax Single Person Discount are promptly reviewed and investigations undertaken as necessary.	24
828	Budget is effectively monitored and controlled.	24
829	Funding from LA's has been received in full.	24
830	Inter-agency fee budget is effectively monitored and controlled.	24
848	Payments to external agencies are accurate and timely.	24
854	All children placed for adoption have a life story book and later life letter prepared for them.	24
196	Payments made to external employee therapy providers are accurate.	48
208	Communication and marketing budgets are effectively monitored and controlled.	48
209	Staffing requirements and associated costs are understood and effectively managed in relation to communication and media related activities.	48
514	An appropriate fee has been received for building control applications.	48

This page is intentionally left blank

AUDIT COMMITTEE
22 JANUARY 2024

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2024/25

SUMMARY REPORT

Purpose of the Report

1. This report requests Audit Committee to review and scrutinise the following prior to forwarding to Cabinet and Council for their approval and adoption:

   (a) The Prudential Indicators and Limits for 2024/25 to 2026/27 relating to capital expenditure and Treasury Management activity.

   (b) A policy statement relating to the Minimum Revenue Provision.

   (c) The Treasury Management Strategy 2024/25, which includes the Annual Investment Strategy for 2024/25

2. The report outlines the Council's prudential indicators for 2024/25 – 2026/27 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

   (a) The reporting of the **prudential indicators** setting out the expected capital activities and treasury management prudential indicators included as treasury indicators in the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice

   (b) The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year.

   (c) The **treasury management strategy** statement which sets out how the Council's treasury service will support capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.

   (d) The key indicator is the **authorised limit**, the maximum amount of debt the Council could afford in the short term, but which is not sustainable in the longer term.

   (e) The **investment strategy** which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

3. The information contained in the report regarding the Councils expenditure plans, Treasury Management and Prudential Borrowing activities indicate that they are:

   (a) Within the statutory framework and consistent with the relevant codes of practice.

(b) Prudent, affordable and sustainable.

(c) An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

Recommendation

4. It is recommended that the Audit Committee examine the following and pass on any comments to Council via Cabinet in order that they approve them:

(a) The Prudential Indicators and limits for 2024/25 to 2026/27 summarised in Tables 1 and 2.

(b) The Minimum Revenue Provision (MRP) statement (paragraphs 36 – 43).

(c) The Treasury Management Strategy 2024/25 to 2026/27 as summarised in paragraphs 47 to 80.

(d) The Annual Investment Strategy 2024/25 contained in paragraphs 89 to 113.

Reasons

5. The recommendations are supported by the following reasons:

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing & Communities (DLUHC) guidance on investments.

(b) To comply with the requirements of the Local Government Act 2003.

(c) To approve a framework for officers to work within when making investment decisions.

Elizabeth Davison
Group Director of Operations

Background Papers
(i) Annual Draft Statement of Account 2022/23
(ii) Draft MTFP (incl Capital MTFP 2024/25 to 2027/28)
(iii) Draft Capital Strategy
(iv) Link Asset Services Economic Report Dec 2023

Judith Murray: Ext 5204

S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well being agenda.
Carbon Impact and Climate Change	This report has no implications for the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Diversity agenda.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

6. 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."

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

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

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

10. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

Reporting requirements

Capital Strategy

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

    (a) A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

    (b) An overview of how the associated risk is managed

    (c) The implications for future financial sustainability.

12. The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is reported separately to Council on an annual basis.

Treasury Management Reporting

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

Prudential and Treasury Indicators and Treasury Strategy (this report)

14. The first, and most important report is forward looking and covers:

    (a) The capital plans (including prudential indicators);

    (b) A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

    (c) The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

(d) An investment strategy, (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

15. This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

16. This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

17. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Treasury Management Strategy for 2024/25

18. The strategy for 2024/25 covers two main areas:

(a) Capital Issues:

(i) The capital expenditure plans and the prudential indicators;
(ii) The minimum revenue provision (MRP) policy.

(b) Treasury Management Issues:

(i) The current treasury position;

(ii) Treasury indicators which will limit the treasury risk and activities of the Council;

(iii) Prospects for interest rates;

(iv) The borrowing strategy;

(v) Policy on borrowing in advance of need;

(vi) Debt rescheduling;

(vii) The investment strategy;

(viii) Creditworthiness policy; and

(ix) Policy on use of external service providers.

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

20. A summary of the key prudential indicators and limits are contained in Tables 1 and 2 and further details are contained further on in this report.

Table 1 – Capital Expenditure and Borrowing

	2023/24 Revised	2024/25 Estimated	2025/26 Estimated	2026/27 Estimated
Capital Expenditure Tables 3 and 4	77.610	70.088	33.707	25.774
Capital financing requirement - Table 5	241.020	260.106	261.805	268.495
Ratio of financing costs to net revenue stream – General Fund See paragraph 45 - Table 6	4.47%	4.16%	4.16%	3.92%
Ratio of financing costs to net revenue stream –HRA See paragraph 45 - Table 6	12.78%	12.42%	12.53%	11.55%
Operational boundary for external debt - Table 9	160.091	183.973	190.581	201.675
Authorised limit for external debt - Table 10	253.071	273.111	274.895	281.920

Table 2 – Treasury Management

	2024/25 Upper Limit	2025/26 Upper Limit	2026/27 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Maximum principal sums invested > 364 days	£50m	£50m	£50m
Maturity Structure of fixed interest rate borrowing 2024/25			
		Lower Limit	**Upper Limit**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Training

21. The CIPFA code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was undertaken by a number of Members during a session held in March 2023 and a session

has been arranged for 31st January 2024. Further training sessions will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

22. The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service provider. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

The Capital Prudential Indicators 2024/25– 2026/27

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

Capital Expenditure

25. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 3 Capital Expenditure

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	45.204	31.038	13.098	4.448
HRA	25.556	27.270	14.485	12.838
Estimated Capital Expenditure	**70.760**	**58.308**	**27.583**	**17.286**
Loans to Joint Ventures	6.850	11.780	6.124	8.488
Total	**77.610**	**70.088**	**33.707**	**25.774**

26. The financing need above excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

27. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 4 Financing of the Capital Programme

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	45.204	31.038	13.098	4.448
HRA	25.556	27.270	14.485	12.838
Loans to Joint Ventures	6.850	11.780	6.124	8.488
Total Capital	**77.610**	**70.088**	**33.707**	**25.774**
Financed by:				
Capital receipts -General Fund	3.381	4.840	0.900	0.250
Capital receipts - Housing	0.000	0.303	0.303	0.303
Capital grants	41.312	4.198	4.198	4.198
JV Repayments	1.000	1.799	13.421	11.299
Self-financing - GF	0.000	22.000	8.000	0.000
Revenue Contributions (Housing)	24.322	13.455	12.668	12.535
Total excluding borrowing	**70.015**	**46.595**	**39.490**	**28.585**
Net financing need for the year	**7.595**	**23.493**	**-5.783**	**-2.811**

The Council's Borrowing Need (the Capital Financing Requirement)

28. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

29. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets' life, and so charges the economic consumption of capital assets as they are used.

30. The CFR includes any other long-term liabilities (e.g. PFI schemes & finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £7.011m of such schemes within the CFR.

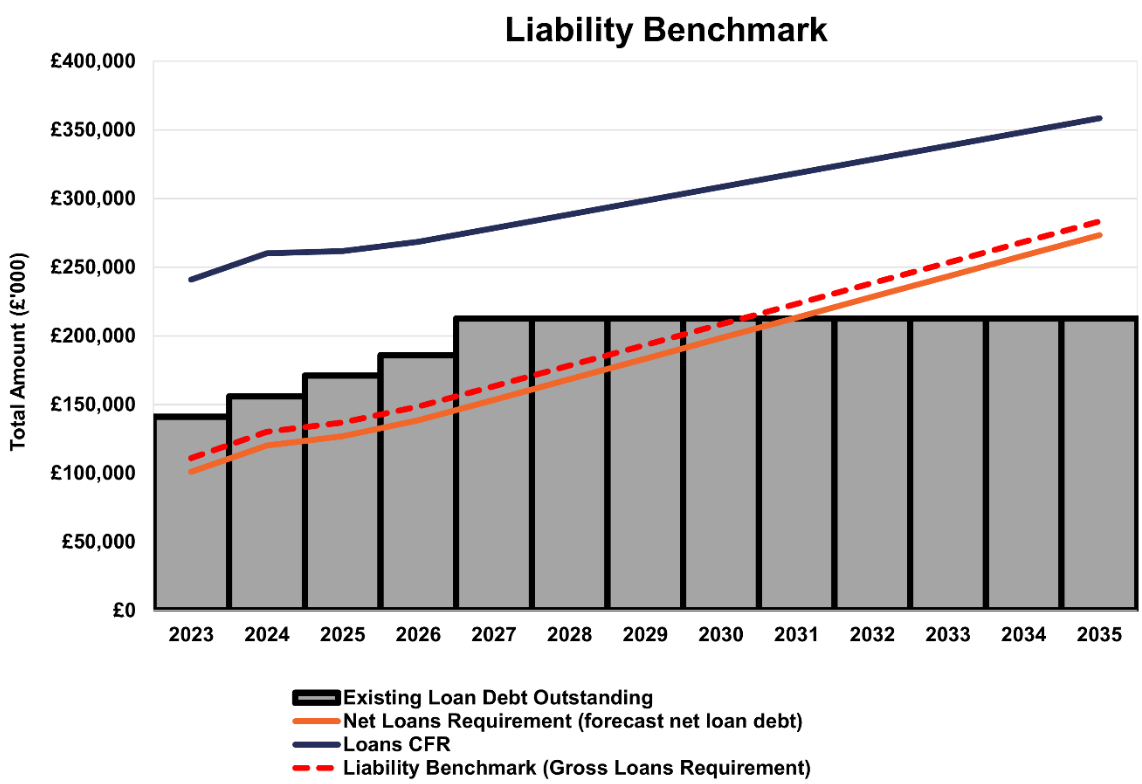
31. The Committee is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
CFR – General Fund	147.244	148.208	149.225	150.748
CFR – PFI and Finance leases	7.011	5.912	4.817	3.722
CFR - housing	76.631	85.871	94.945	104.018
CFR - Loans to JV's	10.134	20.115	12.818	10.007
Total CFR	**241.020**	**260.106**	**261.805**	**268.495**
Movement in CFR		**19.086**	**1.699**	**6.690**

Liability Benchmark

32. A third prudential indicator is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.



33. There are four main components to the Liability Benchmark:-

(a) **Existing borrowing (loan debt outstanding)**: the Council's existing loans that are still outstanding in future years.

(b) **Loans CFR:** calculated in accordance with the loans CFR definition and projected into the future based upon estimated prudential borrowing and associated MRP

(c) **Net loans requirement (Forecast Net Loans Debt)**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

(d) **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short -term liquidity allowance.

34. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

35. CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e., all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the authority is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

MRP Policy Statement

36. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP).

37. DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

38. It is proposed that Darlington Borough Council's MRP policy statement for 2024/25 will be:

(a) For Capital expenditure incurred before 1 April 2008 and expenditure which was granted through credit approvals since that date MRP will be calculated on an annuity basis (2%) over 50 years or the useful life of the asset.

(b) Capital Expenditure from 1 April 2008 for all unsupported borrowing MRP will be based on the estimated life of the assets, repayments will be on an annuity basis (2%)

(c) Repayments relating to the PFI scheme will be based on the life of the asset of 60 years from 1 April 2008 on an annuity basis (2%).

39. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

40. Repayments included in annual PFI or finance leases are applied as MRP.

41. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

42. **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

43. Cumulative VRP overpayments made to date are £0.500m.

Affordability Prudential Indicators

44. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

Estimates of the ratio of financing costs to net revenue stream

45. 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.

Table 6 - Ratio of financing costs to net revenue stream

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	4.47%	4.16%	4.16%	3.92%
HRA	12.78%	12.42%	12.53%	11.55%

46. The estimates of financing costs include current commitments and the proposals in this year's MTFP report.

Treasury Management Strategy

Borrowing

47. The capital expenditure plans set out in the previous paragraphs provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require,

the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Under Borrowing position

48. Over the last ten years the Council had maintained an underborrowed position i.e. the amount of our gross external borrowing has been less than our balance sheet Capital Financing Requirement. This strategy has served the Council well in a period where returns on investment have been low and borrowing costs have been relatively high. This has also meant that we have had less in the form of investments and so reduced counterparty risk. To support the MTFP it was agreed that longer term investments would be pursued as these would give a return over and above the cost of any additional borrowing that would be taken. Following due diligence the Council has 3 Property Funds with £10 million in each fund and these are expected to bring a gross return of between 2.50% and 3.50% over the life of the MTFP. In 2022/23 the funds returned £1.01m in dividends.

49. When the property funds investments were made, they were intended to be long term commitments as capital valuations fluctuate over time. In the current economic climate, it is expected that capital values will decrease due to many market factors including higher interest rates and high inflation, however, as has been seen previously property capital values do tend to increase over time.

50. During 2023/24 we were contacted by our Treasury Management advisors to inform that one of our funds (Lothbury) had received a large number of redemption requests from investors in the fund. It was assumed that these requests had been received due to a number of factors, including investors looking to rotate out of property in light of higher yields in other assets classes, changes to the funds management and possibly the need for more liquid funds. The view of our advisors was to put in a redemption request to ensure that our investment was treated in the same way as other investors should Lothbury cease to continue. We therefore submitted a redemption request.

51. Subsequent to this there has been a number of developments and the current position regarding Lothbury is that they are seeking to merge with the Triton fund. If approved it is hoped that the merger will be completed in March 2024.

52. The Triton Fund invests in similar properties to Lothbury but is 5 star rated and offers returns of around 3.2% over 5yrs. This is similar to what the Lothbury Fund was initially forecast to return.

53. Should Darlington wish to be involved in the merged fund we can transfer all or part or our current units into the fund. Therefore, we can receive a mix of new units and cash. Once the fund is operational there will be no lock in, so we can redeem our investment at any time.

54. If we decide not to be involved with the merger and withdraw from the fund we expect to receive less funding than our original investment based on the current market value of the units (which is to be determined, but currently trading at £2.2m less than our original

investment). We would also lose the dividend income, but we would be able to reinvest the returned funds elsewhere to offset this.

55. In line with previously agreed delegations the Treasury Management Strategy gives flexibility for Officers to manage the day to day operations of our investments including the property funds to maximise returns for the Council. Officers will continue to use this delegation to manage our options regarding Lothbury and report back to Members through the usual reporting processes.

Current Portfolio Position

56. The overall treasury management portfolio as at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowings and investments.

Table 7 – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual 31/03/2023 £m's	Actual 31/03/2023 %	Current 31/12/2023 £m's	Current 31/12/2023 %
Treasury Investments				
Banks	8.000	20.0	0.000	0.0
local authorities	0.000	0.0	0.000	0.0
money market funds	2.045	5.1	11.665	28.0
Total managed in house	**10.045**	**25.1**	**11.665**	**28.0**
Property funds	29.999	74.9	29.999	72.0
Total managed externally	**29.999**	**74.9**	**29.999**	**72.0**
Total treasury investments	**40.044**	**100.0**	**41.664**	**100.0**
Treasury external borrowing				
local authorities	17.000	12.3	20.000	14.2
PWLB	108.414	78.6	108.346	76.9
LOBO's	12.600	9.1	12.600	8.9
Total external borrowing	**138.014**	**100.0**	**140.946**	**100.0**
Net treasury borrowing	**97.970**		**99.282**	

57. The Council's expected treasury portfolio position at 31 March 2024, with forward projections is summarised below at Table 8. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 8 - Gross Borrowing to CFR

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt at 31 March	140.946	155.946	170.946	185.946
Loans to Joint Ventures	10.134	20.115	12.818	10.007
Other long-term liabilities (OLTL)	7.011	5.912	4.817	3.722
Gross Actual debt at 31 March	**158.091**	**181.973**	**188.581**	**199.675**
The Capital Financing Requirement from Table 5	**241.020**	**260.106**	**261.805**	**268.495**
Under / (over) borrowing	**82.929**	**78.133**	**73.244**	**68.820**

58. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that the borrowing is not undertaken for revenue or speculative purposes.

59. The Group Director of Operations reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This takes into account current commitments, existing plans, and proposals within this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

60. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 9 - Operational Boundary

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt from Table 8 (incl JV's)	151.080	176.061	183.764	195.953
Other long-term liabilities	7.011	5.912	4.817	3.722
Prudential Borrowing for leasable assets	1.000	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	1.000	1.000	1.000	1.000
Operational Boundary	**160.091**	**183.973**	**190.581**	**201.675**

The Authorised Limit for external debt

61. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term:

62. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

63. The Council is asked to approve the following Authorised Limit:

Table 10 – Authorised Limit

	2023/24 Revised £m	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
CFR	241.020	260.106	261.805	268.495
Additional Headroom @ 5%	12.051	13.005	13.090	13.425
Authorised Limit	**253.071**	**273.111**	**274.895**	**281.920**

64. It is proposed that the additional headroom for years 2024/25 to 2026/27 is 5% above the CFR, this would allow for any additional cashflow needs throughout the years.

Prospects for Interest Rates

65. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services's central view for future interest rates and the economic background to that view is shown at **Appendix 1.**

Table 11 – Interest rates

	Bank Rate %	PWLB Borrowing Rates % (including *certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Dec 2023	5.25	5.00	5.10	5.50	5.30
Mar 2024	5.25	4.90	5.00	5.30	5.10
Jun 2024	5.25	4.80	4.80	5.10	4.90
Sep 2024	5.00	4.70	4.70	4.90	4.70
Dec 2024	4.50	4.40	4.40	4.70	4.50
Mar 2025	4.00	4.20	4.20	4.50	4.30
Jun 2025	3.50	4.00	4.00	4.30	4.10
Sep 2025	3.25	3.80	3.80	4.20	4.00
Dec 2025	3.00	3.70	3.70	4.10	3.90
Mar 2026	3.00	3.60	3.70	4.10	3.90
Jun 2026	3.00	3.50	3.60	4.00	3.80
Sep 2026	3.00	3.50	3.60	4.00	3.80
Dec 2026	3.00	3.50	3.50	4.00	3.80

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury*

Investment and borrowing rates

66. Investment returns are likely to decrease towards the latter part of 2024/25 if both CPI inflation and wage/employment data support a fall in the bank rate. There is however a likelihood of the overall economy enduring a at least a mild recession over the coming months although most recent economic data has suprosed with its robustness.

67. Borrowing interest rates are also forecast to fall by the end of 2024/25 although these still remain higher than what has been the case in previous years. Naturally timing on this matter will remain one of fine judgement, cut too soon and inflationary pressures may build up further, cut too late and any downturn or recession may be prolonged.

68. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry (the difference between higher borrowing costs and lower investment returns), so any new short or medium-term borrowing will incur a revenue cost.

Borrowing Strategy

69. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is Bank Rate remains elevated through to the second half of 2024.

70. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Group Director of Operations will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

(a) If it was felt that there was a significant risk of a sharp FALL in borowing rates (eg due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

(b) If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projectred to be in the next few years.

71. Any decisions would be reported to the appropriate Committee at the next available opportunity.

Treasury Management Limits on Activity

72. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

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

(b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

(c) Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Table 12 Interest Rate Exposure

	2024/25	2025/26	2026/27
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2024/25			
		Lower	**Upper**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Policy on Borrowing in Advance of Need

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

74. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

75. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates,

76. If there was a possibility the reasons for any rescheduling to take place will include:

    (a) The generation of cash savings and / or discounted cash flow savings;

    (b) Helping to fulfil the treasury strategy;

    (c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

78. If rescheduling was done it will be reported to Committee at the earliest meeting following its action.

New Financial Institutions as a source of borrowing

79. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and Non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

    (a) Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)

    (b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a 'cost of carry' or to achieve refinancing certainty over the next few years)

    (c) Municipal Bond Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

80. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Annual Investment Strategy

Investment and Creditworthiness Policy

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

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

    (a) DLUHC's Guidance on Local Government Investments ("the Guidance")

    (b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

    (c) CIPFA Treasury Management Guidance Notes 2021

83. The Council's investment priorities will be security first, liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

84. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

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

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

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

(d) This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are 2 lists in **Appendix 2** under the categories of 'specified' and 'non-specified' investments.

(i) Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

(ii) Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

(e) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Table 13.

(f) Transaction limits are set for each type of investment in Table 13.

(g) This Council wil set a limit for the amount of its investments which are invested for longer than 365 days.

(h) Investments will be placed with counterparties from countries with a specified minimum sovereign rating.

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

(j) All investments will be denominated in sterling.

(k) As a result of the change in accounting standards for 2022/23 under International Financial Reporting Standard (IFRS) 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the Ministry of Housing, Communities and Local Government [MHCLG], conlcuded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years ending 31 March 2023). This has recently been extended by Government for a further 2 years to 31 March 2025.

86. However, this Council will also pursue value for money in treasury mangement and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

87. The above criteria are unchanged from last year.

Investment Counterparty Selection Criteria

Creditworthiness policy

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

(a) 'Watches' and 'Outlooks' from credit rating agencies;

(b) CDS spreads that may give early warning of changes in credit ratings;

(c) Sovereign ratings to select counterparties from only the most creditworthy countries.

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

(a)	Yellow	5 years
(b)	Purple	2 years
(c)	Blue	1 year (applies to nationalised or semi-nationalised UK Banks)
(d)	Orange	1 year
(e)	Red	6 months
(f)	Green	100 days
(g)	No colour	not to be used

90. The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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

92. All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

    (a) If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

    (b) In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

93. Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

94. Any investment in Property Funds/ Corporate Bond Funds/ Asset Backed Investment Products will be subject to due diligence for each and every fund considered. The maximum amount invested in any one fund will be £20million with a maximum of £50million total for all funds.

Table 13 – Time and monetary limits applying to investments

	Colour (and long-term rating where applicable)	Transaction Limit	Time Limit
Banks	Yellow	£5m	5 years
Banks	Purple	£4m	2 years
Banks	Orange	£3m	1 year
Banks 2 category – part nationalised	Blue	£5m	1 year
Banks	Red	£4m	6 months
Banks	Green	£4m	100 days
Banks	No Colour	Not to be used	
Banks 3 category – Council's banker (where 'No Colour')		£4m	1 day
DMADF (Debt Management Office)	Uk sovereign rating	unlimited	6 months
Other institutions limit			1 year
Local authorities	n/a	£5m per Local Authority	2 years
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	AAA	£5m per Fund	Liquid
Property Funds, Corporate Bond Funds and other Asset backed Investment products	AAA	£20m per Fund	

95. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

96. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

97. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 2 for approval.

Investment Strategy

In-house funds

98. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 so an agile investment strategy would be appropriate to optimise returns.

99. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash flows can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

100. The current forecast shown in paragraph 65, includes a forecast for Bank Rate to be maintained at 5.25% in quarter 2 2024.

101. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:-

(a)	2023/24 (remainder)	5.30%
(b)	2024/25	4.70%
(c)	2025/26	3.20%
(d)	2026/27	3.00%
(e)	2027/28	3.25%
(f)	Years 6 to 10	3.25%
(g)	Years 10+	3.25%

102. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit

103. Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

104. The Committee is asked to approve the treasury indicator and limit: -

Table 14 – Maximum Principal sums invested

	2023/24	2024/25	2025/26
Principal sums invested greater than 365 days	£50m	£50m	£50m

105. For its cash flow generated balances, the Council will seek to utilise its instant access accounts, 30+ day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

106. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. They relate to Investments that are not Property Funds. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

107. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

0.077% historic risk of default when compared to the whole portfolio.

108. Liquidity – in respect of this area the Council seeks to maintain:

(a) Bank overdraft - £0.100m

(b) Liquid short-term deposits of at least £3.000m available with a week's notice

(c) Weighted Average Life benchmark is expected to be 1 year.

109. Yield - local measures of yield benchmarks are:

(a) Investments – internal returns above the 7-day Sterling Overnight Index Average (SONIA) compounded rate

(b) Investments – Longer term – capital investment rates returned against comparative average rates

110. In addition that the security benchmark for each individual year is:

Table 15 - Security Benchmark

	1 year	2 years
Maximum	0.077%	0.077%

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

111. The above reported benchmarks for Security Liquidity and Yield all relate to Deposits with Banks and Money Market Funds but would not relate to Property Funds.

112. It is proposed that property funds will be benchmarked for performance against the IPD All Balanced Fund index which is the universe of all property funds, data for this can be provided by our Treasury Management advisors Link Group.

End of year investment report

113. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Outcome of Consultation

114. No consultation was undertaken in the production of this report.

APPENDIX 1

Economic Background provided by Link Group

1. 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.
   - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
   - Core CPI CPI inflation declining to 6.1% in September 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 by 7.8% for the period June to August, excluding bonuses).

2. The registering of 0% GDP for Q3 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.

3. The fall in composite Purchasing Managers Index from 48.6 in August to 46.7 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% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

4. The 0.4% m/m rebound in retail sales volume 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.

5. 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.

6. The tightness of the labour F 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.

7. But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, 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 annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

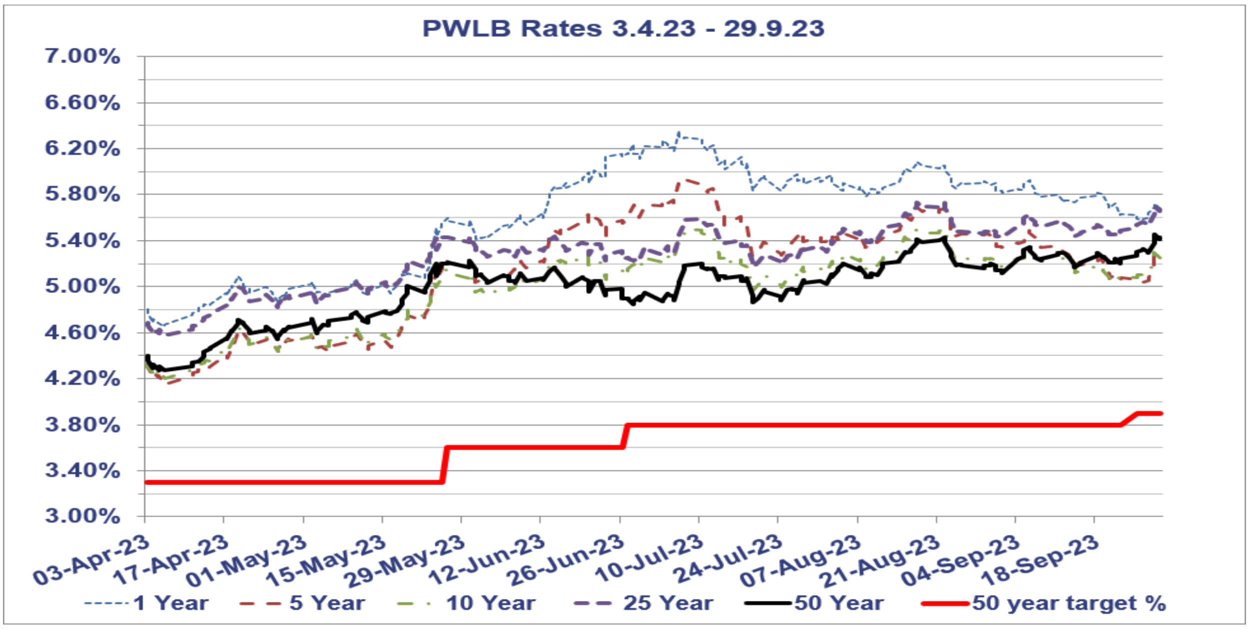
8. CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

9. In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

10. Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

11. 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 in the future.

12. In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.



	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%

13. The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

14. The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS – NOVEMBER 2023

15. Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

16. Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX 2

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments

1. All such investments will be sterling denominated, with maturities up to a maximum of 1year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months).

Non-Specified Investments

2. These are any investments which do not meet the specified investment criteria.

3. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

4. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investment / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	Yellow	100%	6 months (max is set by DMO)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max is set by DMO)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CD's or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK Sovereign rating		

* DMO – is the Debt Management Office of HM Treasury

APPENDIX 3

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA:

(a) Australia
(b) Denmark
(c) Germany
(d) Netherlands
(e) Norway
(f) Singapore
(g) Sweden
(h) Switzerland

AA+:

(a) Canada
(b) Finland
(c) U.S.A.

AA:

(a) Abu Dhabi (UAE)

AA-:

(a) Belgium
(b) France
(c) Qatar
(d) U.K.