MID SUSSEX DISTRICT COUNCIL

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7 November 2022

NOTE: There will be limited public access to observe the meeting. Admission is by ticket only, bookable by 4pm the day prior to the meeting via: committees@midsussex.gov.uk. Access is also available via a live stream through the Mid Sussex District Council's YouTube channel.

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **TUESDAY, 15TH NOVEMBER, 2022 at 7.00 pm** when your attendance is requested.

Yours sincerely,
KATHRYN HALL
Chief Executive

A G E N D A

		Pages
1.	To receive apologies for absence.	
2.	To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
3.	To confirm the Minutes of the previous meeting held on 20 September 2022.	**3 - 8**
4.	To consider any items that the Chairman agrees to take as urgent business.	
5.	Internal Audit Progress Report.	**9 - 20**
6.	Review of Treasury Management Activity - 1 April - 30 September 2022.	**21 - 36**
7.	Treasury Management Service Level Agreement Report.	**37 - 42**
8.	Committee Work Programme 2022/23.	**43 - 44**

9. Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), L Stockwell (Vice-Chair), A Boutrup, M Cornish, J Dabell, I Gibson and S Hicks

Minutes of a meeting of Audit Committee held on Tuesday 20th September 2022 from 7.00 pm - 8.32 pm

Present: M Pulfer (Chair)
L Stockwell (Vice-Chair)

M Cornish	I Gibson
J Dabell	S Hicks

Absent: Councillors A Boutrup

1. APPOINTMENT OF VICE-CHAIRMAN.

The Chairman nominated Cllr Stockwell to fill the vacant Vice-Chairman position for the remaining 2022/23 Council year. This nomination was seconded by Councillor Dabell and with no further nominations put forward, this was agreed.

2. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received Councillor Boutrup.

3. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

No declarations were received.

4. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 26 JULY 2022.

The Chairman asked Stephen Fitzgerald, the Interim Head of Finance and Corporate Resources to report on a few matters that were mentioned in the previous minutes of the meeting given he had not been in attendance.

The Interim S151 Officer updated Members on Item 5: Internal Annual Report in which covered issues relating to Revenues and Benefits. He was accompanied by Simon Hughes, Director of People & Commercial Services who was invited to cover the matter in further detail.

The Director of People & Commercial Services outlined two key priorities. The first priority is to work through the High Risk Strategy contained in the Business Rates Audit Report. Subject to Member approval, the Council will use data analytics of payment of Covid-19 grants to identify rate payers. When that work is finished it will be discussed with the cabinet member and an action plan developed. The second priority is to ensure that all covid and energy rebate grants are paid, reconciled and audit assurance work is completed.

A Member asked for a further explanation of wider issues of cyber security.

The Director of People & Commercial Services confirmed he had recently received a draft report from the Cyber 360 review. Additionally, the Council receives and implements guidance from the National Cyber Security Centre (NCSC). The Cyber 360 report, internal audit and NCSC report review risks including software and hardware suppliers, where information is hosted and where there may be a risk of cyber-attacks. Supplier business continuity arrangements are reviewed and the Council plans for how it may need to respond in the event of a cyber-attack. Once the Cyber 360 report is finalised a strategy and action plan will be developed which includes recommendations from these sources of cyber security intelligence in order to mitigate risks. When this report is finalised it will be brought to the Committee.

A Member thanked officers for sharing the Corporate Risk Register and asked to what extend is financial impacts considered in cyber security.

The Director of People & Commercial Services replied that the Council does consider financial impact which can vary dramatically in terms of loss of data, loss of system or loss of access. He added that it informs decisions about what the Council purchases and business continuity arrangements. It was also stated that it is revisited as new types of cyber treats arise.

The Interim Head of Finance and Corporate Resources discussed matters under Review of Treasury Management Activity 2021/22 relating to phrases mentioned as being incorrect and the Service Level Agreement (SLA) with Adur & Worthing Councils. He stated that the SLA is concluding, and the Council must decide whether to continue with the arrangement or choose another arrangement. He proposed a report being brought to the November meeting of the Committee to discuss the options and the respective financial implications.

On other matters, he confirmed he had circulated Q & A brief that referred to over under borrowing and whilst the terminology is generally used in the field which is relatively opaque however it reflects a position of capital financing requirements. He also referred to an apparent discrepancy in the report which wasn't a discrepancy but two different things being described in the similar way that may have given a view of this. The reconciliation, however, explains the differences and shows that the report is indeed correct.

The Chairman moved to discuss the objection to the 2020/21 Accounts

The Interim Head of Finance and Corporate Resources noted the objection made to the External Auditor who asked for further comments and information which has now been provided. He stated that the Auditor will reflect on the evidence and issue his final decision as to whether to accept the objection or reject it.

The Chairman enquired about the implications if the delay continues.

The Interim Head of Finance and Corporate Resources replied that the main implication is the frustration of not having closure. However, the external auditor had to be allowed to go through due process and ultimately the council had to wait and allow him to complete his deliberations

The Minutes of the meeting of the Committee were then held on 26 July 2022 were agreed as a correct record and signed by the Chairman.

5. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

The Chairman confirmed he has no urgent business.

6. AMENDMENT TO LOCAL AUTHORITY INVESTMENT CRITERIA.

Stephen Fitzgerald, Interim Head of Finance and Corporate Resources, introduced the report which sought to strengthen the investment criteria for placing investments with other Local Authorities.

Joseph Saville, from Adur and Worthing Treasury Management, confirmed that it is a diversification from holding cash in building societies and banks.

Joel Goacher, from Adur and Worthing Treasury Management, stated that it is not an investment in capital intervention and the Central Government has history for keeping Councils afloat therefore it is considered an extremely low-risk investment.

A Member questioned what due diligence the Council does and what will occur with the Adur & Worthing Council's Service Level Agreement (SLA).

The Interim Head of Finance and Corporate Resources outlined the advantage of an SLA rather than a contract as it provides a greater degree of flexibility. There is scope for the Committee to come back in November to decide the way forward. He added that there is always due diligence in the Investment Strategy and doing so is much easier than investments in a money market fund or security which makes Local Authorities naturally the lowest risk of all counter parties. The External Auditor also stated that they are extremely risk-adverse and conduct research before making an investment.

The Chairman believed it would be interesting to discuss the relation between Adur & Worthing Councils and Link at the next meeting. He also asked for where the Council will be in pecking order for payment of investment however, he did note that if it can never fail then why should the Council worry. The Chairman then took Members to the recommendation which was agreed unanimously.

RESOLVED

The Committee noted the contents of the report.

7. INTERNAL AUDIT STRATEGY AND PROPOSED OPERATIONAL PLAN 2022/2023.

Juan Fosco, Internal Auditor at Mazars LLP, introduced the report sets out the Internal Audit Strategy and proposed Operational Plan (Plan) for 2022/23 which details how the Council will meet its statutory requirements for Internal Audit.

A Member referred to the cyclical process of organising the audit process and enquired about the internal effort and costs associated to support the process.

The Internal Auditor replied that the audit process focuses on one area over a two-week timeframe which is then reported on.

Stephen Fitzgerald, Interim Head of Finance and Corporate Resources, explained that he could assist however not at the meeting and offered to provide a ratio analysis on it at a later time. He said time was taken up to inform the internal audit process however the process drives efficiency within the Council.

A Member noted the changes to the Strategic Risk Assessment and asked how it features in the Internal Audit Plan. He also felt it prudent to mention the Council's plans for leisure centres given the big increases in energy costs that are to occur.

The Internal Auditor stated that Mazars are reviewing the leisure centre continuity plans and providing an opinion about best practice. He added that the risks are considered in the plans and they are dynamic in nature and have built in contingency days where they react appropriately to any changes that arise.

The Interim Head of Finance and Corporate Resources highlighted that there will be a report discussed at a forthcoming Cabinet meeting in which the risk of spending pressures will be presented.

The Member referred to the full income of the leisure centres and asked whether the Council is taking money off on the other side.

The Interim Head of Finance and Corporate Resources responded that the Council has thought about the issue carefully and will await what situation will occur as it may be the position of the previous winter where income was affected. He, however, noted mitigations that would be brought forward and resources drawn upon to deal with any outcomes.

The Chairman expressed hope that the government will provide support for the heating of swimming pools.

The Vice-Chairman referred to most reports being carried out online and assumed it was because officers are working at home. She asked whether working from home causes a delay in officers providing information.

The Internal Auditor confirmed that in the last two years the way audits have been conducted has changed. Audits can now take place through Microsoft Teams and screen sharing arrangements as well as enabling a secure portal where information can be shared to make the process less time consuming.

A Member referred to Item 11 and 12 on the IT Audits and asked what the scope of the audit is dependent on as well as when it is implemented.

The Internal Auditor explained that the two audits are included in response to the Audit Needs Assessment. Currently the draft report is with the Digital to assess and scope the delivery of timescales. He also assured he Chairman that the audits will be delivered sometime in Q3 and Q4 of the year and at the very least by March 2023.

The Chairman sought assurances that the list of matters the Internal Audit will review will not be constrained by fees or resources.

The Internal Auditor assured the Committee that it will not be constrained and provided examples of where some audits were removed in order to focus on audits that gave the most value.

The Chairman referred to the small print on P.15 and found it interesting how Mazars see the interaction of the auditor and the committee. He suggested that perhaps he could include bullet points of the auditor's expectation of the Council.

The Vice-Chairman noted the removal of some audits and the addition of others and enquired whether Mazars revisits them if at all.

The Internal Auditor outlined the process in which a master spreadsheet is used to record all audits that have occurred and will occur and consider each respectively every 2, 3 or 5 years especially in light of legislation changes.

The Chairman referred to the first line of Part 5.2, P.11 and enquired whether consideration is in fact a fee.

The Internal Auditor confirmed that it refers to when Mazars raises a recommendation with Management that has a financial implication.

The Chairman then noted that no Member wished to speak so moved to vote on the recommendations which was agreed unanimously.

RESOLVED

The Committee noted the contents of the report.

8. COMMITTEE WORK PROGRAMME 2022/23.

Tom Clark, Solicitor to the Council, introduced the report which presented the Committee with the programme of items for the forthcoming meetings. He confirmed that there is currently no business for the meeting of the Committee in December therefore proposed arranging a treasury management training session for that date.

Stephen Fitzgerald, Interim Head of Finance and Corporate Resources, added he would consult with the Chairman as to whether to hold the session however Members have expressed a desire to hold the training session. He confirmed that the provider will likely be Liger Capital Advisors who will provide a significant part of the training.

A Member expressed that he was quite happy to attend the training session. He raised the issue of May 2023 elections and whether the training will need to be held after the election if the membership of the Committee changes.

The Chairman asked whether there is a cost implication for holding two training sessions.

The Interim Head of Finance and Corporate Resources confirmed that there is a cost implication involved as senior people from treasury management advisors will attend the session. He also added that as there was a gap and Members expressed an interest it seemed like a virtuous session to run as well as adding that the session can be run again after the election using the materials provided.

The Vice-Chairman suggested it provided an opportunity for Councillors who do not sit on the Committee to attend and be trained. The Chairman agreed.

A Member stated that he was firmly in favour of training even if it is for one meeting and others agreed.

RESOLVED

The Committee noted the Work Programme for 2022/23.

9. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

The Chairman confirmed he has no questions.

The meeting finished at 8.32 pm

Chairman

INTERNAL AUDIT PROGRESS REPORT

Report from:	Head of Internal Audit
Contact Officers:	Graeme Clarke, Mazars LLP Juan Fosco, Mazars LLP
Email:	graeme.clarke@mazars.co.ukmailto: juan.fosco@mazars.co.uk
Wards Affected:	None
Key Decision	No
Date of Meeting	15 November 2022

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

1.1 To present the work of Internal Audit for the year thus far and set out the work still to be performed to conclude the programme.

2. Recommendation

The Committee is asked to receive the report.

4 Policy Context

4.1 The purpose of Internal Audit is to provide assurance on the control environment at the Council; the programme is assembled to provide that assurance. It is a requirement that Internal Audit provides a quarterly report on internal audit progress and key findings to the Committee.

5. Other Options Considered

5.1 None.

6. Financial Implications

6.1 There may be minimal financial implications regarding implementing internal audit recommendations depending on the nature of the area and recommendations made. However, any such implications are considered by Management as part of the recommendations raised. Some audit recommendations are also designed to improve value for money and financial control.

7 Risk Management Implications

7.1 Internal Audit identifies weaknesses in the control environment. Therefore, the implementation of recommendations improves the control environment and risk management.

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Mid Sussex District Council - Internal Audit Progress Report

Audit Committee

15 November 2022

Issued 07 November 2022

Contents

Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Mid Sussex District Council (MSDC), and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently, no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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01 Introduction

This report provides a summary of internal audit activity at Mid Sussex District Council (MSDC) since the last Audit Committee (Committee), including:

- An update on progress in delivering the 2022/23 internal audit plan;
- A summary of any Limited/Unsatisfactory Assurance reports issued and high-priority recommendations raised; and
- An update on follow-up activity and any recommendations outstanding for implementation.

The Committee approved the 2022/23 Internal Audit Plan (Plan) on 20 September 2022. The Plan was developed by applying a risk-based approach to provide Members, management, and other external bodies with independent assurance on the adequacy of the Council's risk management, governance, and internal control framework.

02 Current Progress

Since the last Committee, we have resourced the audits included in the Plan and agreed on start dates with the relevant Services within the Council. For this reporting period, there is one audit with the fieldwork completed (**Business Rates**) and one due to start on 14 November 2022 (**Disabled Facilities Grants (DFG)**).

The Committee will recall the phasing of work in the prior year's plan, which saw the majority of audits commence in Q4 due to the timing of our appointment. Compared to our position reported in November last year, there is an improvement in progress, with more work planned to start in Q3 this year. Also, our last planned audit is due to start in March 2023. This should allow us to complete the fieldwork for all audits in the Plan before April 2023.

Since the last meeting of the Committee, the following progress has been made:

Reports issued

• We have issued our final report for the 2021/22 **Cyber Security** audit, in which we raised 13 recommendations (which includes three high-priority recommendations). We understand Mid Sussex are linking these recommendations with their LGA and Cabinet Office Cyber 360 review.

• Although our **IT Audit Needs Assessment** report was issued as a draft in August 2022, we are waiting for final responses and confirmation from Management before we issue a final version. We have been working in partnership to agree the specific actions and timescales that are appropriate to Mid Sussex. We expect to issue a final report before the end of the calendar year.

Work in progress

At the time of drafting this report for the 2022/23 plan:

• We have completed fieldwork on the **Business Rates** audit. The draft report is at the final stages of the review process.

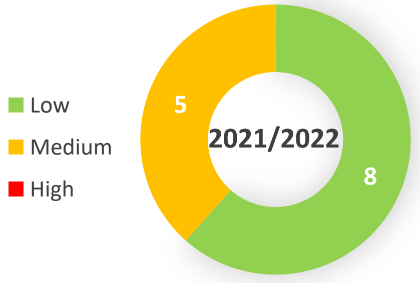
• The **DFG** audit will commence on 14 November 2022.

Further details of the Plan timetable and current status are detailed in Appendix A1.

03 Follow-Ups

In the delivery of our work last year, we included relevant recommendations raised by the former Internal Auditor from their 2020/21 Internal Audit reports. Also, we monitored recommendations raised as part of the 2021/22 internal audits and created a centralised record capturing these, including agreed management actions and timescales for implementation. This has been used as the basis of our follow-up activity.

As of 04 November 2022, there are 13 recommendations which have past their initially agreed implementation dates. There are a further 19 recommendations that were raised but are still within the agreed timescales for implementation and, therefore, not reviewed. Priorities for overdue recommendations are as follows:



We will review these as part of cyclical work in 2022/23 (where applicable). We will discuss updates with the Director of Resources and Organisational Development and subsequently to this Committee in due course, including any outstanding high-priority actions (i.e., actions past their agreed implementation date). Also, we will liaise with the responsible Officers for implementing these.

04 Other Matters

At Mazars, we support the public sector by providing solutions and services that help organisations meet their challenges. We are committed to providing the insight and innovation that helps make informed decisions and deliver objectives.

In the most recent September 2022 Committee Meeting, the Chair requested Internal Audit to provide guidance on “what Internal Audit expects from the Committee and its Members”. In June 2021, we hosted a discussion forum for local authority Audit Committee Members, in which our team considered the role and purpose of an Audit Committee. This was followed by a panel discussion, in which Mazars experts were joined by Audit Committee members from two London boroughs.

We aim to hold another forum in November 2022, and further details about joining this session will be shared with the Chair and Members in due course. If you would like any more information on the webinar or would like to take part in the next session, please get in touch with us.

Audit Committee webinar for local authorities - Mazars - United Kingdom.

Also, Mazars has issued a survey report titled ‘Cyber Security– Is your safety net strong enough?’. This report takes as its starting point the inevitability of being cyber-attacked. Cyber security is no longer a question of if but when. That may amount to a mindset shift for many business leaders, but we believe it’s an important one to make. Further detail is included in Appendix A2.

A1 Current Progress – 2022/23 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Business Rates	Fieldwork Complete.	-	-	-	-
DFG	Starts 14/11/2022	-	-	-	-
Data Protection Act / Freedom of Information	Starts 09/01/2023	-	-	-	-
Accounts Payable (Creditors)	Starts 30/01/2023	-	-	-	-
Financial Management System	Starts 08/02/2023	-	-	-	-
Commercial & Investment Property Portfolio	Starts 13/02/2023	-	-	-	-
Accounts Receivable (Debtors)	Starts 17/02/2023	-	-	-	-
HR – Recruitment and Retention	Starts 20/02/2023	-	-	-	-
Building Controls	Starts 13/03/2023	-	-	-	-
NFI – Data Matching	Reports/matches expected in Q4	-	-	-	-
IT					
IT Disaster Recovery	Starts in Q4	-	-	-	-
Data Security	Starts in Q4	-	-	-	-
Total			**0**	**0**	**0**

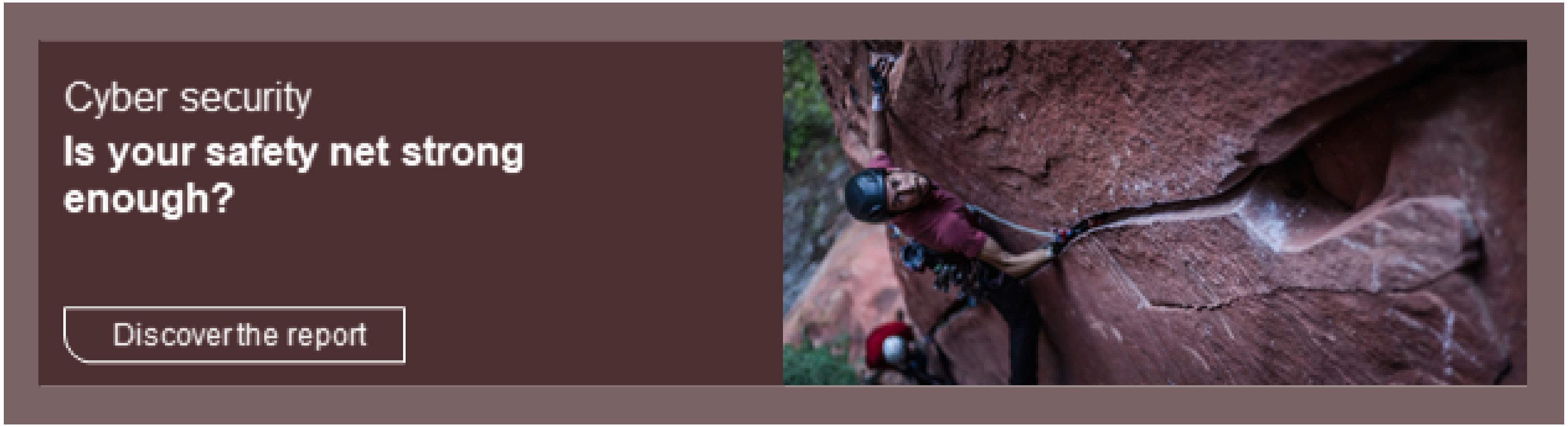
A2 Cyber Security – Is your safety net strong enough?

Cyber threats are all around us. This is not paranoia, it's an unfortunate reality: every day brings new hacks, new data leaks, new embarrassment – and new costs, both financial and commercial. Nobody is spared. The attacks target large and small companies, public-sector institutions, and individuals. How can organisations protect themselves?

The cyber dangers that lurk in the shadows for private-sector companies are no less of a threat to national and local government and other public sector organisations — and in some ways more so. The data these organisations hold is often intensely private and confidential, ranging from social security details and tax filings to education information and health and criminal justice records.

Our annual survey of more than 1,000 C-suite executives worldwide, conducted at the end of 2021, reveals that cyber security is now a major preoccupation among corporate leaders. Effective cyber defence has become a delicate balancing act for many businesses; having a strong safety net that can cushion any eventual fall is paramount.

The report is available to download via the link below.



A3 Definitions of Assurance

Definitions of Assurance Levels	
Level	**Description**
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
Priority	**Definition**	**Action required**
High (Fundamental)	Significant weakness in governance, risk management and control that, if unresolved, exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Significant)	Weakness in governance, risk management and control that, if unresolved, exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

A4 Statement of Responsibility

We take responsibility to MSDC for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2022

REPORT OF:	Stephen Fitzgerald, Interim Head of Corporate Resources
Officer Contact	Joel Goacher Email: joel.goacher@adur-worthing.gov.uk Tel: 01903 221236
Wards Affected:	All
Key Decision	No
Report to	Audit Committee – 15 November 2022

Purpose of Report

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2022

Summary

2. Interest rates on investments have improved, due to the change in economic conditions and effective investment decision making, resulting in income well in excess of budget for the half year, whilst debt continues to diminish. Low risk counterparties continue to be sought and investment in Local Authorities where there is Government intervention will be avoided.

Recommendations

3. **The Committee is asked to recommend the following to the full Council:**

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2022 and the outstanding borrowing has reduced from £2.123m at 31 March 2022 to £1.901m.

   (ii) the increase in investments from £77.636m at 31 March 2022 to £88.175m at 30 September 2022 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund).

Background

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA is now due for renewal.

5. The 2022-23 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement. Interest earned on investments is well in excess than

forecast, due to the change in economic conditions, whilst interest on borrowing is in line with the budget.

7. The Group Accountant would welcome questions and queries from Members using the contact details above.

Policy Context

8. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid-year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

Other Options Considered

9. None – this report is statutorily required.

Financial Implications

10. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

Risk Management Implications

11. The Council's investment risk is managed by monitoring counterparty credit ratings.

Equality and Customer Service Implications

12. None

Sustainability Implications

13. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2022/23 to 2024/25 (Council 11 May 2022), and Review of Treasury Management Activity 2021/22 (Audit Committee 26 July 2022)
- Code of Practice on Treasury Management (CIPFA) and Treasury Management in the Public Services Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA).
- Department for Communities & Local Government Investment Guidance
- Statutory MRP guidance
- Link Asset Services report template (October 2022)

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2022. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is intended to provide the following: -

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

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined 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."

3. INTRODUCTION

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

The primary requirements of the Code are as follows:

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

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

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

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

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

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

- An economic update for the first part of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Group**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken for the first half year.*

4.1 Economics update

4.1.1 The second quarter of 2022/23 saw:
- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

During 2022 there have been significant and several changes in Ministerial responsibility including at the level of Prime Minister and Chancellor of the Exchequer. This has resulted in changes and subsequent reversals on economic policy including taxation. Related to this there have been significant falls in the in the value of the pound and consequential rises in interest rates.

Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's “fiscal event”, it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England’s latest 50 basis points hike looks relatively dovish. However, the UK’s status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government’s fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government’s extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the “fiscal event”, which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to “restore orderly market conditions” until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank’s announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government’s deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

4.2 Interest rate forecasts

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

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now. Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

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

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

5.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by this Council on 11 May 2022. The details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

There are no policy changes to the TMSS other than avoiding investing in Local Authorities where there has been a Government Intervention; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

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

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The increase is made up of a number of capital variations which are detailed in the Budget Management Reports to Cabinet on 18 July 2022 and 26 September 2022. The Capital Programme and Revenue Projects for 2022/23, as approved at Council on the 2 March 2022, amounted to £4.128m of which £2.038m relates to Capital. This was increased to £9.147m following additions to the programme as detailed in the Capital Programme Update reports to Cabinet 21 March 2022 and Cabinet 6 June 2022. Following the 2021/22 Outturn, the programme increased to include the rescheduling of some 2021/22 projects and further increases as reported in Budget Management reports to Cabinet on 18 July and 26 September 2022.

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Total capital expenditure	2.038	1.668	9.147

6.2 Changes to the Financing of the Capital Programme

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

	2022/23 Original Estimate	2022/23 Revised Estimate
	£m	£m
Total Capital Expenditure	2.038	9.147
Financed by:		
Capital receipts	0.243	3.677
Capital grants, S106 etc.	1.550	4.931
Reserves and revenue contributions	0.245	0.539
Total financing	2.038	9.147
Borrowing requirement	0.000	0.000

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

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

Prudential Indicator – Capital Financing Requirement

There is no movement in the Capital Financing Requirement from the original.

Prudential Indicator – the Operational Boundary for external debt

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator: Capital Financing Requirement			
CFR – non housing	6.114	6.387	6.114
Net movement in CFR	(0.547)	(0.274)	(0.547)
Prudential Indicator: The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	0.077	28.000
Other long term liabilities*	4.000	1.824	4.000
Total debt	32.000	1.901	32.000

*finance leases

6.4 Limits to Borrowing Activity: debt compared with the Capital Financing Requirement

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The PWLB borrowing currently at £77k will be fully repaid by the end of the year. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	**£m**	**£m**
Borrowing	0.00	0.077	0.00
Other long term liabilities*	1.676	1.824	1.676
Total debt	1.676	1.901	1.676
CFR	6.114	6.114	6.114

*finance leases

6.5 Limits to Borrowing Activity: debt compared with the Authorised Limit

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

Authorised Limit for external debt	2022/23 Original Indicator	Actual at 30 Sept 22	2022/23 Revised Indicator
	£m	£m	£m
Borrowing	30.000	0.077	30.000
Other long term liabilities	4.000	1.824	4.000
Total	34.000	1.901	34.000

7 BORROWING

7.1 The Council's capital financing requirement (CFR) for 2022/23 is £6.114m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council currently has borrowings of £1.901m, but by the end of 2022/23 this will have fallen to £1.676m. This will be below the CFR, with the balance of the CFR funded from cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

The Council has not taken out any new borrowing in 2022/23.

7.2 PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2022

Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

9 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.
All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

10 ANNUAL INVESTMENT STRATEGY

10.1 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the Councils' risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 4.2, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2022, at each meeting the decision has been made to increase the base rate. Following the September meeting the rate was set at 2.25%, it's highest since 2008's Global Financial Crisis. It is widely anticipated that the bank rate will continue to increase throughout the remainder of 2022 and into early 2023, before stabilising and subsequently returning to around 2% gradually over the course of 2024 and 2025. Inflationary pressures continue to be driven by global fossil fuel markets, largely in response to sanctions placed on Russia as a result of its invasion and subsequent occupation of Ukrainian territory.

The UK government's "fiscal event" presented on September 23rd received a shock response from Gilt markets and prompted a fall and instability in Sterling against most world currencies, including a very strong US dollar.

In general the factors above present both opportunities and risks in our investment activities, chiefly it prompts a need for agility. Therefore our investments continue to follow a low risk and largely short term strategy. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely. It is expected that as a result of increased market rates our investment income for the year will continue to improve.

10.2 Creditworthiness

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

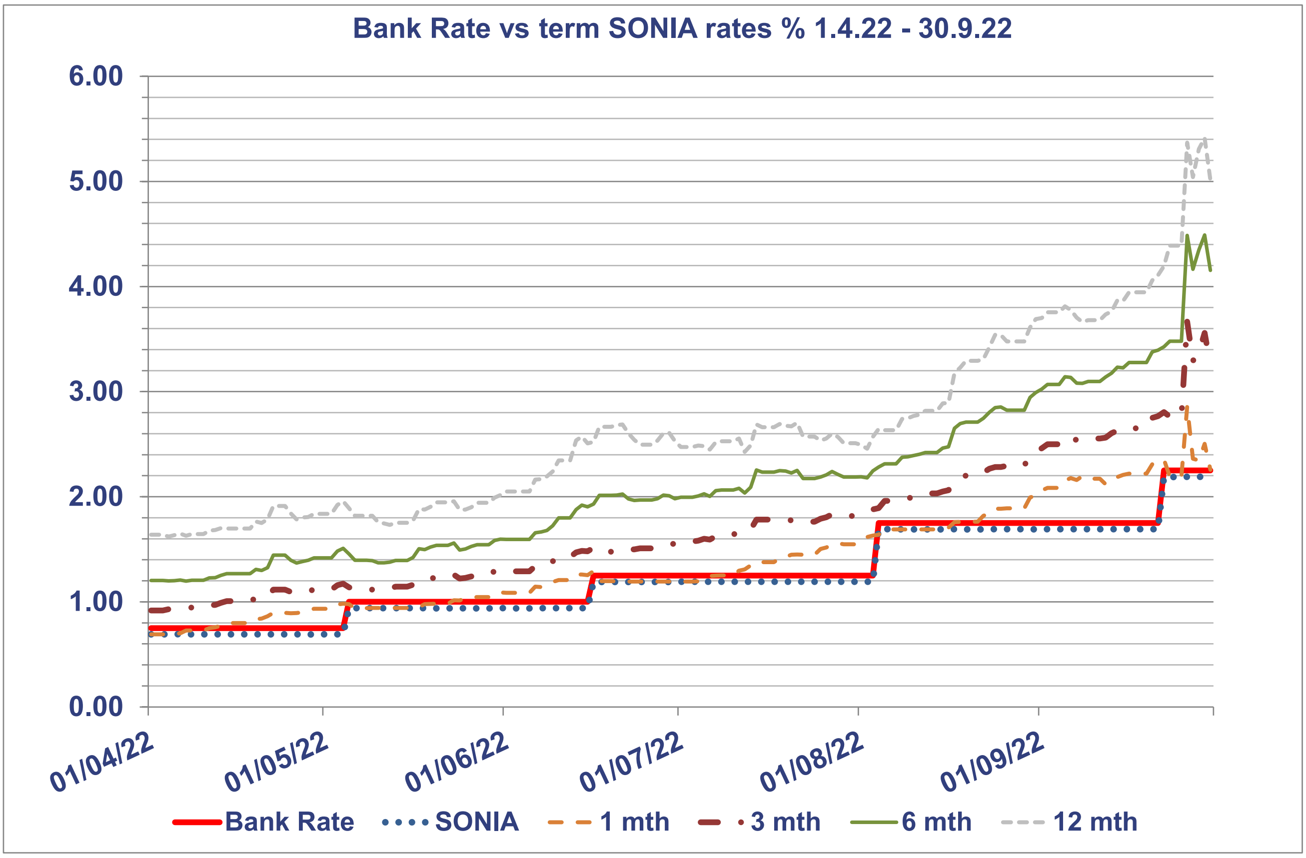
10.3 Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Credit Default Swap prices
Credit Default Swaps (CDS) are credit derivative contracts that enable investors to swap credit risk on a company with another counterparty. They are market indicators of credit risk. Although CDS prices for UK banks spiked at the outset of the pandemic in 2020, they then subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

Investment balances
The average level of funds available for investment purposes during the 6 months, excluding the Council's £6m investment in the Local Authorities' Property Fund, was **£88.2m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment rates during period ended 30th September 2022



10.4 Investment performance year to date as at 30 September 2022

The Council earned £492,253 in investment income of which £45,282 was from market funds, call accounts and notice accounts. This total excludes interest from the Council's £6m investment in the Local Authorities' Property Fund. The Council's budgeted investment return for 2022/23 is £223,918 but the current forecast is £1,417,696, which is £1,193,778 higher than the estimate due to the continuing rise in interest rates.

10.5 Approved limits and Counterparties

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period to 30 September 2022.

10.6 The current difficult economic situation has had a severe impact on the majority of Councils, but some are less well placed to manage the additional pressures caused by rising interest rates and general inflationary increases in wages, utilities and other costs. Consequently there have been some recent interventions by Government in the finances of the most badly affected Councils. A report to the Audit Committee on 20 September 2022 set out the criteria for investing in other local authorities, stating that in future the criteria would exclude Local Authorities subject to Government intervention.

10.7 Investments at 30 September 2022

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Close Brothers Limited	30/03/2022	30/03/2023	£2,000,000	1.50%	A-
Close Brothers Limited	05/09/2022	05/09/2023	£2,000,000	2.80%	A-
Close Brothers Limited	08/09/2022	11/09/2023	£1,000,000	3.90%	A-
Clydesdale Bank Glasgow	10/08/2022	11/08/2023	£4,000,000	2.82%	A-
Goldman Sachs International Bank	24/02/2022	24/02/2023	£3,000,000	1.43%	A+
Goldman Sachs International Bank	06/04/2022	06/04/2023	£1,000,000	1.96%	A+
Goldman Sachs International Bank	30/09/2022	06/03/2023	£1,000,000	4.12%	A+
Handlesbanken Fixed Term Deposit	08/08/2022	08/08/2023	£3,000,000	2.48%	AA
Handlesbanken Fixed Term Deposit	08/08/2022	08/02/2023	£2,000,000	2.22%	AA
National Westminster Bank	27/01/2022	27/02/2023	£1,000,000	0.93%	A+
National Westminster Bank	29/06/2022	29/06/2023	£3,000,000	2.55%	A+
National Westminster Bank	30/06/2022	30/06/2023	£1,000,000	2.55%	A+
Standard Chartered Bank	31/03/2022	31/03/2023	£3,000,000	1.94%	A+
Standard Chartered Bank	29/07/2022	28/07/2023	£1,000,000	2.79%	A+
Cambridge Building Society	09/07/2021	05/07/2023	£1,000,000	0.40%	Unrated
Cambridge Building Society	05/07/2021	05/07/2023	£2,000,000	0.40%	Unrated
Coventry Building Society	31/03/2022	31/03/2023	£1,000,000	1.40%	A-
Coventry Building Society	10/08/2022	09/08/2023	£1,000,000	2.32%	A-
Coventry Building Society	18/08/2022	18/08/2023	£1,000,000	2.70%	A-
Coventry Building Society	30/09/2022	28/02/2023	£1,000,000	3.28%	A-
Leeds Building Society	05/04/2022	05/04/2023	£3,000,000	1.54%	A-
Monmouthshire Building Society	02/08/2021	07/08/2023	£3,000,000	0.35%	Unrated
National Counties B Soc	22/03/2022	22/03/2023	£2,000,000	1.27%	Unrated
National Counties B Soc	05/05/2022	05/05/2023	£1,000,000	1.78%	Unrated
Newcastle Building Soc.	07/04/2022	06/04/2023	£3,000,000	1.25%	Unrated
Nationwide Bldg Society	30/06/2022	30/06/2023	£1,000,000	2.34%	A
Nationwide Bldg Society	08/08/2022	08/08/2023	£3,000,000	2.43%	A
Principality Building Soc	09/06/2022	09/06/2023	£3,000,000	1.78%	BBB+
Progressive Building Society	05/07/2022	05/07/2023	£1,000,000	2.40%	Unrated
Saffron Building Society	07/03/2022	06/03/2023	£3,000,000	1.05%	Unrated
West Bromwich Building So	05/07/2022	05/07/2023	£2,000,000	2.10%	Unrated
West Bromwich Building So	05/07/2022	05/07/2023	£1,000,000	2.10%	Unrated
Yorkshire Building Society	26/07/2022	26/07/2023	£3,000,000	2.52%	A-
Yorkshire Building Society	02/03/2022	06/03/2023	£1,000,000	1.09%	A-
U K Debt Management	21/04/2022	21/10/2022	£5,000,000	0.94%	N/A
Surrey Heath Borough Council	26/09/2022	26/09/2023	£3,000,000	2.70%	N/A
Thurrock Borough Council	25/05/2022	24/05/2023	£2,000,000	1.70%	N/A
Blackrock	n/a	n/a	£2,180,000	Variable	AAA
CCLA	n/a	n/a	£10,000	Variable	AAA
Federated Investors (Uk) Llp	n/a	n/a	£3,000,000	Variable	AAA
Goldman Sachs Funds Plc	n/a	n/a	£10,000	Variable	AAA
Hsbc Esg Mmf	n/a	n/a	£2,990,000	Variable	AAA
Invesco Liquidity Funds Plc	n/a	n/a	£2,985,000	Variable	AAA
TOTAL			**£88,175,000**		

11 OTHER

11.1 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to Members' attention in treasury management update reports.

11.2 Sustainability and Ethical Policies of Counterparties

Following the concerns expressed by Members, the Shared Treasury Service in consultation with the Head of Corporate Resources gives due consideration to environmental, social and corporate governance issues. Some of the policies of the banks and building societies that the Council is currently using are linked below.

https://www.cambridgebs.co.uk/more/about-us/community-detail

https://www.ccla.co.uk/our-policies/climate-change-and-investment-policy

https://www.closebrothers.com/sustainability-and-environment

https://www.coventrybuildingsociety.co.uk/member/sustainability/environment-policy.html

https://www.cumberland.co.uk/about/corporate-governance

https://www.federatedinvestors.com/resources/resource-centers/responsible-investing-center.do?hint=class

https://www.goldmansachs.com/investor-relations/corporate-governance/sustainability-reporting/

https://www.handelsbanken.com/en/sustainability/climate-impact

https://www.invesco.com/corporate/about-us/esg/environmental-sustainability

https://www.leedsbuildingsociety.co.uk/knowledge-base/members/continuing-to-reduce-our-carbon-footprint/

https://www.lloydsbankinggroup.com/our-group/responsible-business/financing-a-green-future-together/reducing-our-own-environmental-footprint/

https://www.monbs.com/blog/valuer-project/

https://www.ncbs.co.uk/about-us/corporate-information

https://investors.natwestgroup.com/esg-disclosures

https://www.newcastle.co.uk/about-us/governance/corporate-governance/

https://www.nationwide.co.uk/about-us/responsible-business/

https://www.principality.co.uk/about-us/our-community/csr

https://theprogressive.com/your-society/our-responsibilities/progressive-and-the-environment

https://www.saffronbs.co.uk/about/community/green-hub/going-green-saffron

https://www.santandercb.co.uk/why-santander/sustainability https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjnwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw_wcB&gclsrc=aw.ds

https://www.westbrom.co.uk/suppliers/supplier-code-of-conduct

https://www.ybs.co.uk/your-society/environment/index.html

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Renewal of Shared Service Agreement for the Provision of Treasury Management Services by Adur and Worthing District Councils

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Stephen Fitzgerald – Interim Head of Corporate Resources & S151 Officer Email: stephen.fitzgerald@midsussex.gov.uk Tel: 01444 477244
Wards Affected:	Relates to financial strategy which has an impact on all wards
Key Decision:	No
Report to:	Audit Committee 15 November 2022

Purpose of Report

1. This report informs members of the intention to renew the inter-authority agreement with Adur and Worthing District Councils for the provision of Treasury Management services to Mid Sussex District Council (MSDC). It is planned that the Shared Service Agreement (SSA) will be extended under delegated authority.

2. Members are asked to note the report, make any comments related to the extension of the arrangement, and approve the exercise of delegated authority by the Interim Head of Corporate Resources who is currently fulfilling the function of the Assistant Director, Corporate Resources.

Summary

3. The provision of Treasury Management is a key part of the finance service to MSDC. As part of the financial stewardship of the local authority the Council needs to manage its cash which is collected to provide for goods, services, contracts, and salaries. This cash is invested on financial markets to provide income in support of the Council's activities. Investments can include, banks, building societies, other local authorities and money market funds that access particular asset classes such as investment property.

Recommendations

4. **The Committee is recommended to:**

   (i) Note the contents of the report
   (ii) Make any comments on the proposed arrangements
   (iii) Approve the exercise of delegated authority by the interim Head of Corporate Resources to extend the Shared Service Agreement

Background

5. MSDC has a Shared Service Agreement with Adur and Worthing District Councils for the provision of Treasury Management services. This is for the managing of the Councils' liquid assets which include the securing of loans and the placing of investments.

6. The agreement was originally established in October 2019 with the making of a Service Level Agreement (SSA) by the Head of Corporate Resources at the time, using his delegated authority.

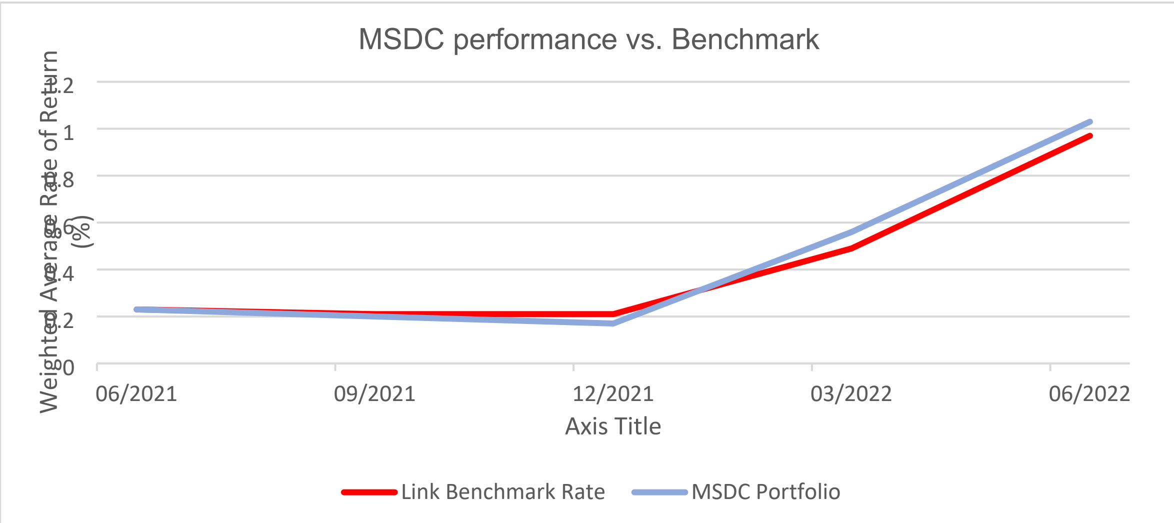
7. That agreement has run its course and it is proposed that this arrangement should be renewed.

Performance of the Shared Service Agreement

8. Over the life of the Shared Service Agreement, Adur and Worthing have exercised their responsibilities on behalf of MSDC with technical excellence, immediacy, professionalism, and integrity. A key aspect of their function is to ensure that the Councils' money is protected from undue risk and invested to secure the maximum levels of income. Additionally, they play a key role in advising the Councils' Section 151 officer (as defined by the Local Government Act 1972) on decision making so far as treasury management and capital financing is concerned. Thirdly, they will report to the Section 151 officer and the Councils' Audit Committee on performance of the Councils' Treasury Management Strategy consistent with the CIPFA code of practice and associated professional guidance.

9. At any one time, the Council has up to £95m invested on financial markets. It is obviously important that the Councils' money is safe but also earns the maximum, in terms of interest receipts and dividend income, to support the Council's long term financial position.

10. The historical performance of MSDC treasury management activity is shown below:



11. This graph shows the performance of MSDC's market investments against a benchmark based on the performance of a group of similar public sector bodies (Note these figures exclude the results of the Local Areas Property Fund). The Council's stable cash flow means investments often can be placed long term. It is expected that the investment return will continue in-line with or above the performance of the Council's peers.

Governance Issues

12. Section 101 of the Local Government Act 1972 enables a local authority to arrange for the discharge of any of their functions by another local authority by way of delegation without the need for a formal procurement process.

13. Under the Financial Procedure Rules, the Assistant Director of Corporate Resources has responsibility for:

    a) arranging the borrowing and investments of the Council, including bank overdrafts, in such a manner as to comply with the CIPFA Code of Practice on Treasury

Management, the Prudential Code, the Council's Treasury Management Strategy and the Council's Treasury Management Practices.

b) reporting on treasury activities to the Audit Committee, with recommendations (including adoption of the Treasury Management Strategy Statement and Annual Investment Strategy) referred for approval by Full Council.

14. In making these arrangements, the responsibility for Treasury Management decisions always remains with the Council. The Council will ensure that the terms of the appointment of the shared services provider, and the methods by which their value will be assessed, are properly agreed, and documented and subjected to regular review.

15. Under the Officer Scheme of Delegation, the Assistant Director of Corporate Resources has authority to take all actions and make all decisions not reserved to Council or Cabinet relating to the Council's finances, including borrowing, investment, income collection, recovery of debts, making of payments and accounting procedures. The Assistant Director of Corporate Resources has delegated authority to report to the committee on treasury activities and to take all actions and decisions relating to the council's finances not reserved to Council or Cabinet. On this basis it is appropriate to for them to enter this reviewing and extending the agreement using officer's delegated powers. The Interim Head of Corporate Resources is currently fulfilling this function and is the Council's designated Section 151 Officer.

16. However, in making this decision it is appropriate to make the Audit Committee aware and to take any comments on the proposed decision.

Options and alternatives considered

17. In reviewing the renewal of the Shared Service Agreement, all possible options were considered. The provision of local authority Treasury Management Services is a specialist area requiring knowledge of the guidance on Local Authority Treasury Management and the issues associated with the inter-authority loans and investments market. Additionally, it also requires an in-depth knowledge of the local authority Capital Finance Regulations. While there are external advisory firms that provides supportive advice (such as Link Asset Services that is currently used by MSDC) there are no firms that provide the holistic service that is delivered by the Shared Service Agreement. Additionally, to go to the private sector, the Council would need to initiate and pursue a full tendering service which would be costly and would not be guaranteed to deliver a bid that met the necessary criteria.

18. A further alternative considered is the establishment of a MSDC in-house team, however the cost of establishing a team from scratch would create a significant budget pressure. Best estimates are that the cost of such a team would be in the region of £100,000 a year including employment related costs. Additionally, MSDC would lose the professional expertise, economy of scale and resilience that that the Shared Service Agreement provides. There is also no guarantee that MSDC would be able to recruit suitably experienced and qualified staff given the challenges on the current recruitment market for finance professionals.

19. There are other local authorities that provide treasury management services, however, given that Adur and Worthing operate on a cost recovery basis there is no evidence that another local authority operation would be any cheaper. Additionally, they would not have the specific local knowledge of the MSDC circumstances and investment history. There would undoubtably be significant costs of setting up with a new provider and there would be an increased risk in the short term through lack of familiarity with the MSDC situation.

Policy Context

20. The provision of Treasury Management is consistent with the policy context set in the Corporate Plan. Good performance in this area is fundamental to the delivery of the Medium-Term Financial Strategy that provides the resource base for all the Councils' corporate operations.

Financial Implications

21. The cost of the renewal of the Shared Service Agreement would be £16,454.80 for the remainder of 2022/23. For the remainder of the agreement, from 2023/24 and beyond the costs would be shown in the table below:

Total Annual Running Costs (Note 1)**: £36,400.00**

Financial year	Cost* (apportioned)
2023/24	£36,400.00
2024/25	£36,400.00
2025/26	£19,945.20

*Fees are payable to the provider quarterly in arrears, all banking charges are to be met by MSDC.

Notes:
(1) Costs will be reviewed annually prior to the anniversary by mutual agreement, subject to service changes, annual pay awards and other inflationary pressures.

Included in this charge are £12,500 of related software and advisory services which MSDC would be required to procure were it not to continue the Shared Service Agreement.

This spend profile is considered to represent good value for money given the other options available, as outlined in this report. The costs of the provision of this service were included in the budget in March 2022 and are also included in the Councils' Medium Term Financial Strategy.

Risk Management Implications

22. Experience in the local authority sector is that there are significant risks in the making of loans and investments in financial markets. The most high-profile example of failure in risk management was the Icelandic banking collapse in October 2008 where approximately 25% of English local authorities had placed deposits in Icelandic banks that subsequently collapsed. The best way to mitigate these risks is to have a risk averse Treasury Management Strategy, which the Council currently adopts. Secondly the resilience that the Shared Service Agreement provides, helps to mitigate the risk that there will be insufficient appropriate qualified individuals to manage the Council's loans and investments and that there are appropriate defensive strategies in place in the case of negative market fluctuations.

Equality and Customer Service Implications

23. By engaging in a Local Authority delivered Shared Service the application of equalities is applied to the staff in Adur and Worthing as they are in MSDC.

24. In terms of customer service, the Shared Service Agreement has demonstrated a high level of performance both in is dealing with MSDC officers and presenting and engaging with Council Members at Audit Committee and on a more informal basis.

Sustainability Implications

25. The work on Treasury Management is undertaken in the context of the Councils' policies on sustainability and investments are made in a fashion which is consistent with Environment, Social and Governance principles.

Background Papers

MSDC/Adur and Worthing Shared Service Agreement, October 2019

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COMMITTEE WORK PROGRAMME 2022/23

REPORT OF:	Stephen Fitzgerald, Interim Head of Corporate Resources
Contact Officer:	Ellen Fisher, Member Services Officer Email: ellen.fisher@midsussex.gov.uk Tel: 01444 477208
Wards Affected:	*All*
Key Decision:	No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2022/23.

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.

Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2022/23 is set out below:

Meeting Date	Item
13 December 2022	Member Training TBC
21 February 2023	Financial Statements 2021/22 Auditors Annual Report 2020/21 (TBC) External Audit Results Report 2021/22 Treasury Management Strategy Statement Internal Audit Monitoring Report Annual Audit Grant Certification

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Other Options Considered

7. None.

Financial Implications

8. None.

Risk Management Implications

9. None.

Equality and Customer Service Implications

10. None.

Other Material Implications

11. None.

Sustainability Implications

12. None

Background Papers

13. None