MID SUSSEX
DISTRICT COUNCIL

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13 February 2023

NOTE: There will be limited public access to observe the meeting. Those wishing to do so must reserve a seat by completing a Registration Form by 4pm on the working day prior to the meeting. 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, 21ST FEBRUARY, 2023 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 15 November 2022.	**3 - 6**
4.	To consider any items that the Chairman agrees to take as urgent business.	
5.	Capital Strategy 2023/24 to 2026/27.	**7 - 16**
6.	Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 to 2025/26.	**17 - 48**
7.	Internal Audit Progress Report.	**49 - 58**
8.	Internal Audit Strategy and Proposed Operational Plan 2023/24.	**59 - 70**
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), K Adams, A Boutrup, M Cornish, I Gibson and S Hicks

Minutes of a meeting of Audit Committee held on 15th November, 2022 from 7.00 pm

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

J Dabell I Gibson S Hicks

Absent: Councillors A Boutrup and M Cornish

1. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillors Boutrup and Cornish.

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

No declarations were received.

3. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 20 SEPTEMBER 2022.

The Minutes of the meeting of the Committee were then held on 20 September 2022 were agreed as a correct record and signed by the Chairman.

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

The Chairman confirmed he has no urgent business.

5. INTERNAL AUDIT PROGRESS REPORT.

Louise Duffield, Director of Resources and Organisational Development, introduced the report which updated the Committee on the work of the Internal Audit activity since the last meeting. Juan Fosco, Internal Auditor at Mazars LLP, provided an update on the progress of delivering the 2022/23 Internal Audit plan and Simon Hughes, Director of People and Commercial Services provided an update on Cyber Security.

The 13 outstanding recommendations are now confirmed as implemented with officers and Management. These were completed in timescales but not communicated clearly to Mazars. Of the 19 further recommendations not yet due, it has been agreed with the Director of Resources and Organisational Development these items will be included in the monthly update, with these all expected to be completed within the agreed time scales.

The Chairman invited Members to ask questions. A Member asked for clarity on why the completed cyber security audit report had not been included, claiming that Members are entitled to receive a copy of the full report and outstanding actions. Geoff Wild, Interim Assistant Director of Legal and Democratic Services and Monitoring Officer advised in order to discuss these, the meeting would need to move to a closed session.

The Chairman asked Members if they wished to go into a closed session. This was proposed by Councillor Hicks and seconded by Councillor Gibson.

The meeting moved into closed session at 7.20pm

The Chairman brought the meeting back into open session at 7.38pm on completion of consideration of the exempt item. The Chairman moved to the recommendation to receive the report, which was agreed unanimously with 5 in favour.

RESOLVED

The Committee received the report.

6. REVIEW OF TREASURY MANAGEMENT ACTIVITY - 1 APRIL - 30 SEPTEMBER 2022.

Joel Goacher, of Adur & Worthing Council introduced the report, which set out the Councils Treasury Management activity from 1 April 2022 to 30 September 2022.

The Chairman clarified for the benefit of the Committee, that Appendix 1 as referenced at paragraph 5, page 21 of the report, is the summary at paragraph 1 on page 23 of the report. The officer agreed.

The Chairman invited Members to ask questions.

The Chairman took Members to a vote on the recommendations, seconded by the Vice Chairman, which were agreed unanimously with 5 in favour.

RESOLVED

The Committee recommended 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).

7. TREASURY MANAGEMENT SERVICE LEVEL AGREEMENT REPORT.

Louise Duffield, Director of Resources and Organisational Development introduced the report, setting out the Treasury Management functions of MSDC and the governance arrangements in place along with the options and alternatives when considering the renewal of the SLA. She advised given the size of the Council, the appropriate and affordable solution and appropriate risk management is to extend the SLA with Adur & Worthing Councils under delegated authority by the interim Head of Corporate Resources, Stephen Fitzgerald.

The Chairman took Members to a vote on the recommendations, seconded by the Vice Chairman, which were agreed unanimously with 5 in favour.

RESOLVED

The Committee:

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

8. COMMITTEE WORK PROGRAMME 2022/23.

Louise Duffield, Director of Resources and Organisational Development, introduced the report which presented the programme of items for the remainder of the financial year. She advised the Committee the training session scheduled for 13th December was confirmed and would be delivered by Link Services. She invited the Chairman to consider holding the training virtually via Teams.

The Chairman asked Members by show of hands whether to hold the training virtually, via Teams. This was confirmed by the Committee.

The Chairman took Members to a vote on the recommendation, seconded by the Vice Chairman, Councillor Stockwell which were agreed unanimously with 5 in favour.

RESOLVED

The Committee noted the Work Programme for 2022/23 as set out at paragraph 5 of the report.

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 7.55 pm

Chairman

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CAPITAL STRATEGY 2023/24 to 2026/27

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Rachel Jarvis, Assistant Director of Corporate Resources (and S151 Officer) Email: rachel.jarvis@midsussex.gov.uk Tel: 01444 477244
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee
	21st February 2023

Purpose of Report

1. To present the Capital Strategy 2023/24 to 2026/27 for approval by the Committee.

Recommendations

2. **The Committee is asked to consider the draft Strategy, provide any feedback it feels appropriate and recommend the Strategy for approval by Council at the next appropriate meeting.**

Background

3. Each year the Council is required to approve a Corporate Plan and budget that shows how it will deliver its services and spend its financial resources in the following financial year. This includes publishing a Capital Programme which sets out the level of investment in the Council's assets and the financing of that investment.

4. Our Corporate Plan has in the past included a Strategy designed to guide such investment, but this good practice has now been formalised through a revision to the CIPFA Prudential Code. Authorities need therefore to present and have adopted a Capital Strategy each year.

5. Appendix 1 contains a draft Capital Strategy to fulfil the requirements of the Code. It sets out the principles by which we will make capital investment and aims to balance needs and expectations with available resources.

Policy Context

6. Adopting a Capital Strategy fulfils the Council's statutory duties.

Financial Implications

7. This report has no financial implications.

Risk Management Implications

8. It is not considered that adopting this strategy brings forward any significant risk.

Equality and Customer Service Implications

9. None

Other Material Implications

10. None.

Sustainability Implications

11. None.

Appendices

Appendix 1 – Capital Strategy and Programme to 2026/27

Background Papers

None.

Capital Strategy to 2026/27

1.0 Overview

1.1 The purpose of the Capital Strategy is to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable, long-term delivery of services.

1.2 The Capital Strategy supports the prioritisation of investment in assets that support the objectives of the Council, while helping to ensure that all elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.3 The Capital Strategy is framed within the following statute and guidance:

Legislation Local Government Act 2003

• Chapter 1:

o 1.1 – Power to Borrow

o 1.3 – Affordable borrowing limit

o 1.12 – Power to invest

o 1.15 – Regard to guidance issued

Professional Codes CIPFA Professional Codes

• Prudential Code 2021

• Treasury Code of Practice 2021 Guidance Government and CIPFA guidance

• Minimum Revenue Provision 2018

• Local Government Investments 2018

1.4 The Strategy is completed in line with best practice as outlined within the Chartered Institute of Public Finance and Accountancy (CIPFA) revised 2021 Treasury and Prudential Code

2.0 Member approval and review

2.1 The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management and the Capital Strategy, to a sub-committee and this responsibility is delegated to the Audit Committee.

3.0 Governance Framework

3.1 The programme is dynamic in support of the Council's investment need, its sustainability and long-term service delivery. The Council's 5 year rolling programme (current year plus 4) is profiled based on best estimates and is required to be regularly reviewed and reprofiled to ensure the programme is current and can support decision making.

3.2 To support the dynamic nature of the programme, the Council's constitution, in particular the Financial Procedure Rules set out at Part 4(iv), financial regulations and Capital Strategy govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's constitution.
- The Capital Strategy and Programme is approved by Full Council as part of the Council's annual Corporate Plan and Budget report.
- The Audit Committee scrutinises the Treasury Management Strategy and this Strategy for recommendation to Council,
- Internal and External audit scrutiny as and when agreed by audit plans.
- The programme approved as part of the annual corporate plan and budget will only be added to, or removed from, with the agreement of the AD Corporate Recourses by an approved variation that is in accordance with Financial Regulation B.3.2 (e). and:
    - where budget provision is transferred to capital expenditure financed from revenue account (CERA) or another project in accordance with Financial Limits.
    - where earmarked grants or other specific funding are spent for the purpose they were received, provided that capital resources are enhanced by the amount received. And that the capital receipts are received either before the payments are made, or within the same financial year.
    - Where reprofiling into future years occurs on a project and there is no effect on the availability of capital resources, these should be reported to Cabinet as part of monitoring and equivalent adjustments will be made to the following year's programme.
    - Any request outside of this process would have to be approved by Cabinet;
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations and the Capital Strategy;
- The Council will put in place an officer led Major Projects Board (MPB) to oversee the development, delivery and reporting of the Council' capital programme.

4.0 Capital Funding

4.1 Capital expenditure can be funded in a variety of ways:

- Grants - contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant.
- Section 106 contributions - contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant Section 106 contribution.
- Capital receipts - Capital receipts are derived from the sale of the Council's assets.
- Direct Revenue contributions (CERA)- Revenue contributions from service budgets within financial limits.
- Reserves and Revenue Set Aside – The Council can use its general fund balance to fund capital projects, specific reserve and payback from invest to save schemes.
- Borrowing - Borrowing spreads the cost over a number of years but loan servicing costs (MRP) and the overall level of debt exposure both need to be considered and clearly flagged in a business case.

4.2 Project feasibility works are funding through specific reserve until such a time as the Business Case can be proposed for approval.

4.3 The method of funding for any particular scheme will depend on a number of factors and the combination will be reviewed by the S151 officer on an on-going basis to ensure the best long-term options are achieved.

5.0 Whole life costing for capital schemes

5.1 Whole life costing can be defined as "the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset." In practical terms this means that any appraisal of a proposed capital project will need to consider not just the initial capital cost, but all costs and income streams associated with the project that are likely to occur in future years, including possible replacement or disposal costs. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

6.0 Scheme Evaluation and Risk

6.1 The Major Projects Board (MPB) will have overview of any feasibility works and the proper reporting of new capital schemes via appropriate project documentation and will as necessarily include a full evaluation of risk and have regard to the whole life costing methodology set out above.

7.0 Monitoring of approved capital schemes

7.1 For approved capital schemes it is the responsibility of the relevant budget holder to manage costs and to provide explanations for any variations from the approved budget to MPB in accordance with Financial Procedure Rules.

Capital Programme to 2026/27

8.0 Core Programme

8.1 Capital expenditure can be defined as expenditure that results in the acquisition, construction or enhancement of an asset (e.g., land, buildings, plant and equipment), that continues to benefit the Council for a period of more than one financial year. The definition of 'capital' will be determined by the AD Corporate Resources, having regard to government regulations and accounting requirements. Within the programme there will be elements of expenditure that for accounting purposes will be defined as revenue.

8.2 To ensure that the Council meets the requirements, it will:

- Ensure expenditure included in the capital programme contributes to the achievement of the Council's Priorities The programme is considered annually as part of the corporate plan and budget which underpins the financial planning process;
- Ensure investment decisions make best use of resources.
- Have a clear framework for making capital expenditure decisions.
- ensure access to sufficient long-term assets to provide services.

8.3 The Council has a core programme comprising: -

- Asset Management and Temporary Accommodation (all owned or leased assets) which allows assets to be maintained in a condition fit for purpose and to ensure access to these assets to provide services.
- Information Technology, the overarching principle of the IT&D strategy is to ensure that our Information and Communications Technology (ICT) is fit for purpose for delivering modern council services in a digital era, whilst protecting any data held and maintaining appropriate security standards.

- Disabled Facilities Grants (DFGs) that pay for essential adaptations to help people with disabilities stay in their own homes and is fully funded by Government grant.

To this end asset management and temporary accommodation and information technology programmes are funded by capital receipts in the first instance where available and then general reserve if no receipts are available or capitalisation is not appropriate.

8.4 In addition to the core annual programme other schemes will be considered subject to the criteria set out below. As detailed above it is important that any new schemes have a clear benefit to ensure that limited resources are used in the most effective possible way to support the council's priorities.

9.0 Prioritising new schemes

9.1 In common with other local authorities Mid Sussex is facing a challenging financial climate and it is therefore essential that governance procedures are in place to ensure that scarce resources are allocated in the most effective possible way.

9.2 Business Cases for new schemes will be assessed against the following criteria:

• Link to the Council's strategic direction

• Availability of specific external funding

• Demonstration of a sound business case

• Whole life cost implications (see 2.6 above)

• Value for money

9.3 Business Cases (BC) will be required to set out the key factors. BC's will be considered by the MPB before being proposed for inclusion within the programme in line with the financial regulations with appropriate information being presented to Cabinet in line with financial procedure rules.

10.0 Links to other Council Strategies

10.1 A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a **Treasury Management Policy and Strategy** setting out the Council's policies for managing investments and borrowing. The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

10.2 The Local Government Act 2003 permits local authorities to borrow to finance capital expenditure provided that the plans are affordable, prudent and sustainable in the long term. The Treasury Management Policy and Strategy and the Capital Programme identifies a borrowing need. 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 the capital expenditure plans.

10.3 Under the Prudential Code and Treasury Management Code, the Council is required to set parameters around its borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. Additionally, when funding capital expenditure through borrowing, the Council is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP).

10.4 To ensure the separation of the core treasury function under security, liquidity and yield principles (SLY), and the policy and commercialism investments usually driven by expenditure on an asset, the Capital Strategy is reported separately from the Treasury Management (TM) Strategy. Therefore, the debt related to the activity and the associated interest costs, payback period, Minimum Revenue Provision policy or for non-loan type investments, the cost against the current market value and the financial risks are part of the Treasury Management Policy and Strategy.

10.5 The proposed capital programme investment has consideration directly to the Treasury Management Strategy. A specific model developed for this purpose continues to be used and updated to remain currents so that it remains responsive to any treasury management risks, such as interest rate volatility. Any borrowing required is within the limits set by the Treasury Management Strategy, which sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.

11.0 Asset Management

11.1 As outlined in 8.3 above, there is a core annual programme to cover capitalised repairs and improvements for all the Council’s assets. Asset management planning establishes the priorities for this programme having regard to the condition of the various assets and their respective priorities in terms of delivering Council services or generating rental income.

12.0 Proposed Programme of Capital and Revenue projects

Proposed additions approved by Cabinet in February are listed in the table 1 below

Table 1 – Proposed Additions

Proposed New Projects - Capital Programme 2023/24 - 2026/27					
Capital Projects	**Total 2023/24 £'000s**	**Total 2024/25 £'000s**	**Total 2025/26 £'000s**	**Total 2026/27 £'000s**	**Revenue Implications 2023/24 £'000s**
Digital & Technology Projects					
PC Replacement Programme V	50	50	50	50	
Endpoint and Infrastructure Refresh	30				
Mobile device refresh	60				
Office 365 (Phase II)	50				
Total Digital & Technology Projects :	**190**	**50**	**50**	**50**	**0**
Others:					
Garden Waste Service Expansion - Bin Purchase	39	39	39	29	120
Replacement Wheelie Bin Purchase	117	0	0	0	
Car Park condition survey	35				
Parks Improvement Programme					
Mount Noddy, East Grinstead Masterplan	196	319			
Total Others:	**387**	**358**	**39**	**29**	**120**
Major Capital Renewals					
Unallocated Funding for future years	0	146	133	133	
Total Major Capital Renewals	**0**	**146**	**133**	**133**	**0**
Environmental Health					
Disabled Facility Grants	900	900	900	900	
Total Environmental Health	**900**	**900**	**900**	**900**	**0**
Total New Capital Projects	**1,477**	**1,454**	**1,122**	**1,112**	**120**
Financed By:					
Grant Contributions WSCC	900	900	900	900	
Met from Revenue Contributions (for MCR)	0	146	133	133	
S106s (time limited / non-time limited	96	200			
General Reserve	275	119			
Capital Receipts	206	89	89	79	
Total Financed:	**1,477**	**1,454**	**1,122**	**1,112**	

The proposed programme is presented below at Table 2.

Table 2 Capital Programme 2022/23 - 2026/27

Scheme Description	*Total £'000*	*Pre 1/4/2022 £'000*	*2022/23 £'000*	*2023/24 £'000*	*2024/25 £'000*	*2025/26 £'000*	*2026/27 £'000*
Planning & Sustainable Economy							
Burgess Hill Place and Connectivity Programme	5,335	4,112	1,223	0	0	0	0
About the Place Public Arts Project	118	4	114				
Keymer Brick &Tile Community Building improvement works	4	0	4				
Electric Vehicle fast charging points	38	0	38				
Hill Place Farm SANG -easement Bluebell Railway Line	731	0	**731**				
Temporary Accommodation (including Swanmead)	4,450	1,070	1,200	2,180	0	0	0
Affordable Housing	485	405	80	0	0	0	0
Total Planning Policy & Sustainable Economy	11,161	5,591	3,390	2,180	0	0	0
Commercial Services and Contracts							
Contracts & Services							
Bolney Recreation Ground(Batchelor's Field) Playground Improvements	80	78	2				
Petanque Rink construction, Marle Place Recreation Grd, Bhill	26	22	4				
Forest Field, Haywards Heath	60	4	56				
Turners Hill Recreation Ground	72	43	29				
St Andrews Play Area, Burgess Hill	73	65	8				
Garden Waste Bins	20	19	1				
Garden Waste Service Expansion - Bin Purchase	146	0	0	39	39	39	29
Replacement Wheelie Bin Purchase	234	0	117	117			
Car Park Condition Survey	35	0		35			
Dolphin Leisure Centre Play Area Haywards Heath	30	0	30				
Hollands Way Play Area, East Grinstead	62	0	62				
Hemsleys Meadow and Finches Field, Pease Pottage Masterplan	900	0	90	810			
Victoria Park, Haywards Heath Masterplan	326	0	162	164			
Mount Noddy, East Grinstead Masterplan	695	0	180	196	319		
St. John's Park, Burgess Hill Masterplan	0	0	TBD				
Centre for Outdoor Sport (Master Planning)	545	0	375	170			
		0					
Total Contracts & Services	3,304	231	1,116	1,531	358	39	29
Commercial Services and Contracts							
Estates Services & Building Control							
Major Capital Renewals Unallocated Funding	412	0	0	0	146	133	133
Intruder Alarm Upgrade	52	19	33				
East Court Pavilion Sewage pump	69	0	69				
Oaklands Replacement Windows	95	0	95				
Heating works Phase IV	52	0	52				
Oaklands Staff Room and Remodelling and Refurbishment	44	0	44				
The Orchards - Changing Place Toilet	190	0	190				
Hickman's Lane Pavilion Renovation	255	0	0	255			
Bedelands Gypsy and Traveller site	500	0	15	485			
Cherry Tree (St Albans Hall(Fairfield Road BH)	16	0	16				
Unallocated MCR 22/23	10	0	10				
Total Estates Services & Building Control	1,695	19	524	740	146	133	133
Corporate Resources							
Income Management Replacement System	63	51	12				
Total Corporate Resources	63	51	12	0	0	0	0
Digital & People Services							
Workstation replacement programme (future years)	306	56	50	50	50	50	50
Workstation replacement programme (slippage 21/22))	10	0	10				
Host Replacement- Production farm and DMZ	55	41	14				
Fibre Channel Switch Replacement	36	27	9				
Rural Connectivity Programme	3,182	2,184	998				
Research and Innovation Fibre Ring (RIFR)	312	212	100				
Oaklands Wifi Refit	50	40	10				
Telephony System replacement (hardware)	250	54	2	194			
Network Infrastructure Maintenance Project	20	2	18				
Endpoint and Infrastructure Refresh	30	0		30			
Mobile Device Refresh	60	0		60			
Office 365 (Phase II)	50	0		50			
Total Digital & People Services	4,361	2,616	1,211	384	50	50	50
Communities							
Air Quality Monitoring Station	10	0	**10**				
Disabled Facility Grants	7,141	1,898	1,643	900	900	900	900
CCTV East Court and Mount Noddy Recreation Ground in East Grinstead	43	14	29				
Martlets Temporary Urban Park	100	0	100				
Total Communities	7,294	1,912	1,782	900	900	900	900
Grand Total	27,878	10,420	8,035	5,735	1,454	1,122	1,112

Table 3 below then presents the financing of the programme.

Capital Programme 2022/23 - 2026/27						
Financing Schedule						
Description	*Notes*	*2022/23 £'000*	*2023/24 £'000*	*2024/25 £'000*	*2025/26 £'000*	*2026/27 £'000*
Grant Contributions from WSCC-Disabled Facility Grants	*1*	1,643	900	900	900	900
Grant Contributions from third parties	*2*	2,330	150			
Capital Grants & Contributions Reserve :	*3*					
: - S106 Contributions -non time limited		184	259	200		
: - S106 Contributions - Housing -non time limited		80	0			
Capital Grants & Contributions - Receipts in Advance :	*4*					
: - S106 Contributions -time limited		789	723			
: - S106 Contributions - Housing time limited		0	0			
Capital Receipts	*5*	1,497	2,386	89	89	79
Use of General Reserves / Specific Reserves / Revenue Contributions	*6*	1,512	1,317	265	133	133
Total Programme		**8,035**	**5,735**	**1,454**	**1,122**	**1,112**

Notes:

1. West Sussex County Council grant received for Disabled Facility Grants.
2. Grant received from third parties including other Local Authorities.
3. Capital grants, capital contributions and S106 contributions from developers with no conditions to repay.
4. Capital grants and S106 contributions from developers with conditions to repay if not used within a specified time limited.
5. Financed from Capital Receipts.
6. Financing from General Reserve and Specific Reserve including the use of revenue contributions.

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24 TO 2025/26

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Rachel Jarvis, Assistant Director Corporate Resources (S151) Email: rachel.jarvis@midsussex.gov.uk Tel: 07458 064 168
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee, 21 February 2023

Purpose of Report

1. This report sets out the Council’s rolling investment and borrowing strategy for the forthcoming three years and reports the counterparty list with which investments may be made. It also sets out the Prudential Limits that provide the parameters for approved future lending and borrowing, including the incidental cost of so doing.

Summary

2. The Lending is restricted to the same counterparties and within the same limits as in the previous strategy approved in March 2022 except for the following amendments:

   (i) 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.

   (ii) Add Furness Building Society to the list of approved counterparties.

   (iii) Extend the number of building societies with a limit of £4m from the top 3 to the top 5.

   (iv) Reduce the lending term to other Local Authorities from 5 years to 1 but increase the limit from £3m to £5m subject to due diligence.

   (v) Increase the investment limit with Standard Chartered Bank from £4m to £5m.

   (vi) Include the Australia and New Zealand Banking Group in the list of Specified Investors

Recommendations

3. **The Audit Committee is recommended to propose that Council agree:**

   (i) the proposed Treasury Management Strategy Statement (TMSS) for 2023/24 and the following two years,
   (ii) the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report;
   (iii) the proposed amendments to the specified and non-specified investment appendices;
   (iv) the Prudential Indicators contained within this report.

Background

4. The Council's approach to investments is to pursue a low-risk strategy which favours security over yield. There are some proposals in this report intended to increase yield with marginally more risk, however these proposals diversify the portfolio and extend the spread of risk

5. Other options are available, which may return higher yield such as not using the lowest common denominator method of selecting counterparties or extending the range of foreign banks, but these could potentially expose the Council to further risk.

6. Aligned to the annual budget plan, the treasury management operation aims to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in high quality counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially, before considering investment return. This is consistent with national guidance which promotes security and liquidity above yield.

7. The second main function of the treasury management service is consideration of the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs 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.

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

9. 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.".*

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

Policy Context

11. 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 Assistant Director Corporate Resources. To aid this Committee Members were provided with a Treasury Management Briefing in December 2022.

Other Options Considered

12. None – this report is statutorily required.

Financial Implications

13. 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

14. This report has no specific implications for the risk profile of the Authority.

Equality and Customer Service Implications

15. None.

Other Material Implications

16. None.

Sustainability Implications

17. None.

Background Papers

- Treasury Management Strategy Statement & Annual Investment Strategy 2022/23 to 2024/25 (March 2022)
- Annual Review of Treasury Management 2021-22 (September 2021)
- Review of Treasury Management Activity 1 April – 30 September 2022 (Nov. 2022)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) and CIPFA Treasury Management Guidance Notes 2021
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021)
- Corporate Plan 2023/24
- Link Asset Services report template 2023/24

Treasury Management Strategy Statement & Annual Investment 2023/24 to 2025/26

INTRODUCTION

1.1 Reporting requirements

1.1.1 Capital Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

The aim of this 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.

1.1.2 Treasury Management reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) - the first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

The approval of the Treasury Management Strategy and Annual Investment Strategy is the function of the Council, however the Assistant Director Corporate Resources (S151) shall also report to the Audit Committee on treasury management activity performance as follows:

b. A mid year treasury management report – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. The report will be submitted as soon after 30 September as practically possible.

c. An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. The report will be submitted no later than 30 September after the financial year end.

d. Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council.

1.2 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee, which may make recommendations regarding any aspects of treasury management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations, as may be made shall be incorporated within the above named reports and submitted to meetings of the Council for consideration at the next available opportunity. The Council's Scheme of Delegations is set out in Appendix E.

1.3 **Treasury Management Strategy for 2023/24**

The strategy for 2023/24 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 **Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training. This especially applies to Members responsible for scrutiny. Training was supplied to Members by Link Asset Services on the 13th December 2022. The training needs of the treasury management officers at Adur District Council, who provide the shared treasury service to Mid Sussex District Council, are periodically reviewed. Officers attend courses provided by appropriate trainers such as CIPFA and Link Asset Services. As of 1st April 2023 a log of training undertaken will be maintained by the Group Accountant responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

1.5 **External Service Providers**

The Council obtains treasury management services under a Shared Services Arrangement (SSA) from the in-house treasury management team formed out of the partnership working between Adur District and Worthing Borough Councils. The operation for all three Councils' treasury management is based at Worthing Town Hall, utilising similar banking arrangements. The SSA is provided under a Service Level Agreement (SLA) that commenced in October 2022 and which defines the respective roles of the client and provider authorities for a period of three years.

The SSA uses Link Group, Treasury Solutions as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

In making this arrangement the Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that reliance beyond the terms and arrangements specified in the SLA is not placed upon the shared service providers. The Council will ensure that the terms of the appointment of the shared services providers, and the methods by which their value will be assessed, are properly agreed and documented and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

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.

2.1 Capital expenditure

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. The figures exclude other long-term liabilities, such as leasing arrangements which already include borrowing instruments. These forecasts are based on the information which was available at the time and are intended to be indicative but changes to the Capital Strategy may have been approved by other committees.

Capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2026/27 Estimate
General Fund	10.842	6.076	3.541	1.135	1.112

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.

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	1.252	1.497	2.386	0.089	0.089
Capital grants, Contributions & S106 receipts	9.195	4.101	1.105	0.900	0.900
General Reserves, Specific Reserves & Revenue Contributions	0.395	0.478	0.050	0.146	0.133
Net financing need for the year	0.000	0.000	0.000	0.000	0.000

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total 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 it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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 asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has one finance lease taken out in 2018 and ending in 2028.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total CFR at 31/03	6.661	6.114	5.714	5.307	4.894
Movement in CFR	(0.534)	(0.547)	(0.401)	(0.407)	(0.413)
Movement in CFR represented by:					
Net financing need for the year (above)	(0.000)	0.000	0.000	0.000	0.000
Less MRP and other financing movements	(0.534)	(0.547)	(0.401)	(0.407)	(0.413)
Movement in CFR	(0.534)	(0.547)	(0.401)	(0.407)	(0.413)

2.2 **Liability Benchmark**

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

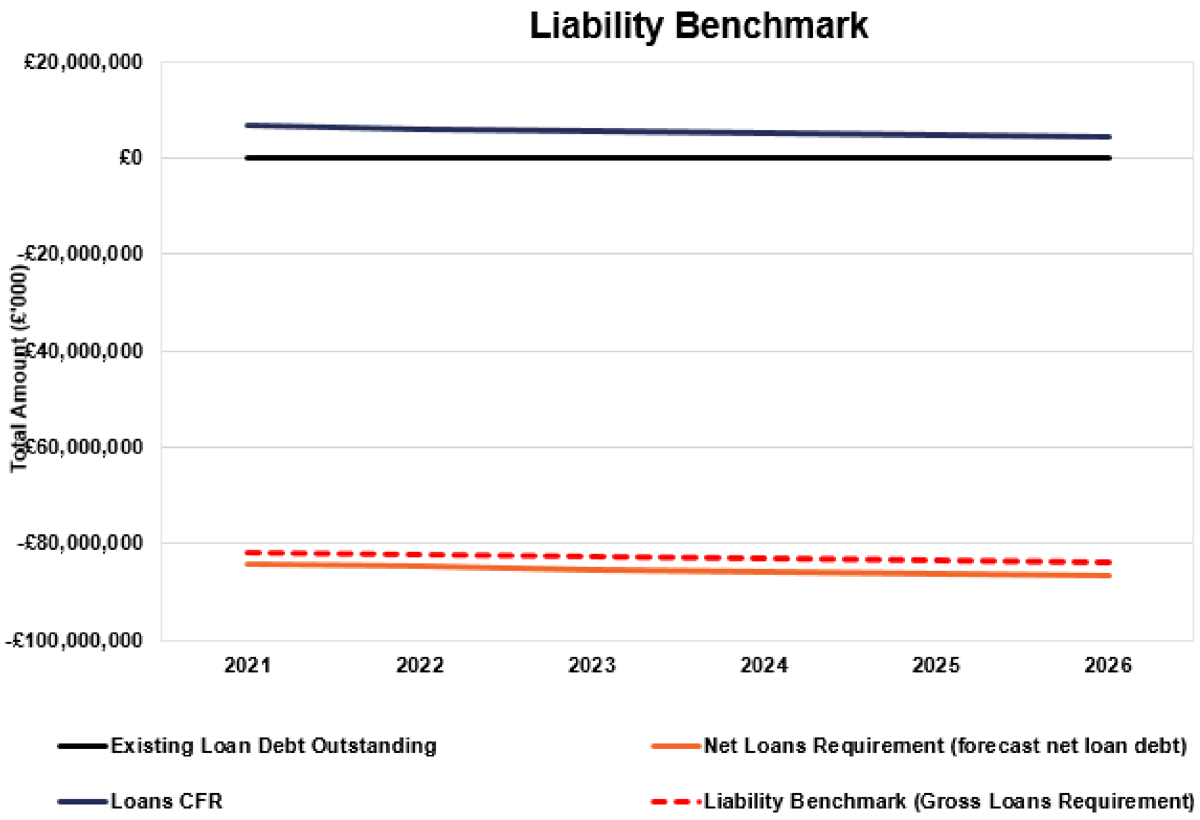
Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

Net loans requirement: this will show the Authority'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.

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

As the authority is effectively debt free, with the exception of the finance lease from 2023/24, the benchmark lacks relevance but is nevertheless a requirement.



2.3 **Minimum revenue provision (MRP) policy statement**

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), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). Repayments included in finance leases are applied as MRP.

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

The Council's policy for MRP relating to unfunded capital expenditure is to provide for MRP on an annuity basis over the life of the loans (except as detailed below for the Orchard Shopping Centre). As an annuity is a fixed annual sum comprising interest and principal, the MRP for repayment of debt will increase each year over the asset life as the proportion of interest calculated on the principal outstanding reduces as the debt is repaid.

The purchase of the Orchard Shopping Centre head lease in November 2016 increased the Capital Financing Requirement. However, due to capital receipts on Hurst Farm, MRP will only be provided on £5m. This will be done on a level basis of £100,000 per year.

3.0 BORROWING

The capital expenditure plans set out in Section 2 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 the relevant professional codes, so that sufficient cash is available to meet the 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 appropriate borrowing facilities.

The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022 and for the position as at 31 December 2022 are shown below for both borrowing and investments.
Note: the investment balances are at a point in time indicated in the table but there can be considerable variations throughout the year, with peaks and troughs on the cash flow.

	Principal at 31.03.2022 £m	Actual 31.03.2022 %	Principal at 31.12.2022 £m	Actual 31.12.2022 %
External Borrowing				
PWLB	(0.153)	7%	(0.078)	4%
Finance lease	(1.970)	93%	(1.750)	96%
TOTAL BORROWING	**(2.123)**	100%	**(1.828)**	100%
Treasury Investments:				
Local Authority Property Fund	6.687	8%	6.000	6%
In-house:				
Banks	21.041	25%	29.000	29%
Building societies - unrated	18.000	21%	18.000	18%
Building societies - rated	21.000	25%	21.000	21%
Debt Management Office	6.000	7%	5.000	5%
Local authorities	8.000	9%	6.000	6%
Money market funds	3.595	4%	13.590	14%
TOTAL INVESTMENTS	**84.323**	100%	**98.590**	100%
NET INVESTMENTS	**82.200**		**96.762**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April	5.298	0.152	0.000	0.000	0.000
Expected change in Debt	(5.146)	(0.152)	(0.000)	(0.000)	0.000
Other long-term liabilities (OLTL)	2.258	1.970	1.676	1.375	1.069
Expected change in OLTL	(0.288)	(0.294)	(0.301)	(0.306)	(0.313)
Actual gross debt at 31 March	2.122	1.676	1.375	1.069	0.756
The Capital Financing Requirement	6.661	6.114	5.714	5.307	4.894
Under borrowed	4.539	4.438	4.339	4.238	4.138

The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023. The "other long term liability" is in respect of capital assets acquired by finance leases.

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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Assistant Director Corporate Resources reports that the Council complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

3.2 **Treasury Indicators: limits to borrowing activity**

The operational boundary - This is the limit 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.

Operational Boundary	2022/23	2023/24	2024/25	2025/26
	£m	**£m**	**£m**	**£m**
Debt	£28.0m	£28.0m	£28.0m	£28.0m
Other long-term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
Total	**£32.0m**	**£32.0m**	**£32.0m**	**£32.0m**

3.3 **The authorised limit for external debt** – 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 the 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.

The Council is asked to approve the authorised limit:

Authorised Limit	2022/23	2023/24	2024/25	2025/26
	£m	**£m**	**£m**	**£m**
Debt	£30.0m	£30.0m	£30.0m	£30.0m
Other long-term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
Total	**£34.0m**	**£34.0m**	**£34.0m**	**£34.0m**

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.

The Assistant Director of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council at the earliest opportunity.

3.4 **Prospects for interest rates**

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. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

In the 3 years prior to this report, the persistence of Covid-19 has continued to have some impact both in the UK economy and in economies around the World. Geo-political tensions in Asia and energy supply pressures, as a result of sanctions on Russian economic drivers following their invasion of Ukrainian territory in 2022, have also weighed heavily on the UK economy. These factors combined to stagnate economic growth whilst increasing inflationary pressures.

Prior to the above issues, the Bank Rate was expected to peak at 1.25% in quarter 1 of 2025. However, as of quarter 4 of 2022 the rate is 3.50% and anticipated to increase further in the first half of 2023 reaching a peak of 4.5% before decreasing steadily over the coming 2 years. Some more recent data suggests that the bank rate may be nearing its peak at or possibly below 4%, though there is still a significant amount of uncertainty and potential for volatility both in the UK and in world economies. This means it is difficult to predict which level of Bank Rate will be deemed sufficient by the Monetary Policy Committee across their 2023 meetings.

Additional information about interest rates and the risks to the forecasts are contained in Appendix F.

3.5 **Borrowing for capital expenditure** Link's long-term forecast (beyond 10 years) for Bank Rate is 2.50%. If the Council is not able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost. However, there is currently no anticipated borrowing requirement.

3.6 **Borrowing strategy**

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

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

As stated, there are no current plans to borrow, but if this changes, it is most likely that fixed rate funding will be drawn for a short period until they return to lower rates.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.7 **Policy on borrowing in advance of need**

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

3.8 **Debt rescheduling**

The Council has one loan from the Public Works Loan Board, repaid by fixed annuities over the life of the loan, which ends in March 2023, therefore no debt rescheduling is anticipated.

3.9 **New financial institutions as a source of borrowing and / or types of borrowing**

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- 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).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources if any borrowing is required.

4.0 ANNUAL INVESTMENT STRATEGY

4.1 **Investment policy – management of risk**

The Councils' investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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

The Assistant Director Corporate Resources, under delegated powers, will undertake through the Shared Service Arrangement the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. 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. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the Councils will seek to use notice accounts, money market funds, call accounts and short-dated deposits to benefit from the compounding of interest.

If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

The proposed Specified and Unspecified investments will remaing the same as for 2022/23 except for:

i. The exclusion of Local Authorities subject to Government intervention.

ii. Add Furness Building Society to the list of approve counterparties.

iii. Extend the number of building societies with a limit of £4m from the top 3 to the top 5.

iv. Reduce the lending term to other Local Authorities from 5 years to 1 but increase the limit from £3m to £5m subject to due diligence.

v. Increase the investment limit with Standard Chartered Bank to £5m.

vi. Include the Australia and New Zealand Banking Group in the list of Specified Investors

Investment instruments identified for use in the financial year are listed in Appendices C and D under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices.

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

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

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

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendices C and D under the categories of ‘specified’ and ‘non-specified’ investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

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

5. **Lending limits**, (amounts and maturity), for each counterparty are set out in Appendices C and D.

6. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.8).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.5). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.

8. Through the shared service, this authority has access to **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

9. All investments will be denominated in **sterling**.

10. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority 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 MHCLG, concluded 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 five years ending 31.3.23, in December 2022 as a result of further consultation the implementation was further delayed until 31st of March 2025.

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.14). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year other than the changes set out in 4.1.

4.1 **Creditworthiness policy**

The primary principle governing the Council's investment criteria through the Shared Services Arrangement (SSA) is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the SSA will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections in Appendices C and D; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential Indicators covering the maximum principal sums invested.

The SSA will maintain a counterparty list in compliance with the criteria in the Appendices and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied to the SSA by the Link Group, there treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to the SSA almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

4.2 **Use of additional information other than credit ratings**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment opportunities.

The officers of the shared service recognise that ratings should not be the sole determinant of the quality of an institution and that 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, the government support for banks, and the credit ratings of that government support. Accordingly, the shared service will exercise discretion to deviate from Link's suggested durational bands – for example the Council approves the use of Building Societies as set out in the Appendices.

4.3 **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the September 2022 mini budget. Although the Sunak government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

4.4 **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the SSA has access to this information via its Link-provided Passport portal.

4.5 **The Council's Minimum Investment Creditworthiness Criteria**

The minimum credit ratings criteria used by the Council generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

The Council includes **Building Societies** with asset size in excess of £1 billion in its approved counterparty list. It is recognised that they may carry a lower credit rating than the Council's other counterparties, or no rating, therefore the lending limits for the building societies shall be £4m each for the top 5 and £3m for the others.

4.6 **Other limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The shared service has determined that it will only use approved counterparties from countries (other than the UK) with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria as at the date of this report is reflected in the counterparty approved lending list at Appendix C. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

4.7 **Investment strategy**

In-house funds - 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. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the shared service will seek to use notice accounts, money market funds and short-dated deposits to benefit from the compounding of interest

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

The Assistant Head Corporate Resources, through the shared service, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the Audit Committee and the Council in accordance with the reporting arrangements. The shared service will take into account the ethical, social or climate change policies of counterparties.

4.8 **Investment returns expectations**
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.:

Average earnings in each year	
2022/23	2.00%
2023/24	4.00%
2024/25	3.00%
2025/26	2.30%
Long term later years	2.20%

4.9 **Investment treasury indicator and limit - 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. There are currently 3 fixed term deposit investments with a remaining duration of more than 365 days,

totalling £6m and the Local Authorities' Property Fund investment of £6m is expected to be held for more than 365 days.

The Council is asked to approve the following treasury indicator limit: -

Maximum proportion of principal sums invested > 365 days	**2023/24**	**2024/25**	**2025/26**
Principal sums invested > 365 days	50%	50%	50%

4.10 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with The Debt Management Account Deposit Facility of the Debt Management Office (DMO) of the UK central government. The rates of interest are usually below equivalent money market rates, however, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

4.11 The Council's proposed investment activity for placing cash deposits in 2023/24 will be to use:

- AAA rated Money Market Funds with a Constant Net Asset Value (CNAV) or a Low Volatility Net Asset Value (LVNAV) under the new money market fund regulations
- other local authorities, parish councils etc.
- bank business reserve accounts and term deposits. These are primarily restricted to UK institutions that are rated at least A- long term.
- Building Societies with asset size in excess of £1 billion

4.12 **Other Options for Longer Term Investments**

To provide the Council with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following for longer term investments, as an alternative to cash deposits:

a) **Supranational bonds** greater than 1 year to maturity

b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

c) **Building Societies** not meeting the basic security requirements under the specified investments, but on the list in Appendix C (b). The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.

d) Any **bank** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

e) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and exposure up to the limit applicable to the parent.

g) **Property Investment Funds** for example the Local Authorities' Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment.

h) Other **local authorities**, parish councils etc.

i) Other investments listed in Appendices C and D - the Council will seek further advice on the appropriateness and associated risks with investments in these other categories as and when an opportunity presents itself.

4.13 The **accounting treatment** may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

4.14 The Council will not transact in any investment that may be deemed to constitute capital expenditure (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

4.15 **Investment risk benchmarking** – The shared service will subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

4.16 At the end of the financial year the Council will report on investment activity as part of the **Annual Treasury Report.**

4.17 **External fund managers**
The Council does not use external fund managers, (other than the Local Authorities' Property Fund) but reserves the option to do so in future should this be deemed to be appropriate. Should consideration be given to exercising this option in the future, the relevant Committee will be advised of the reasons for doing so and the Council requested to consider whether it wishes to proceed with the selection and appointment of external fund managers.

4.18 **The monitoring of investment counterparties –** The credit rating of counterparties will be monitored regularly. The shared service receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and whent ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the shared service, and if required, new counterparties which meet the criteria will be added to the list.

5. OTHER MATTERS

5.1 **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework**

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Councils have to have regard to these codes of practice when they prepare the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to the Full Councils for approval.

5.2 **Treasury Management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Following the revised codes, the following adaptations have been made in this report:

- Inclusion of the liability benchmark in the strategy as shown in 2.2.· An amendment to the Treasury Management Practices to address Environmental, Social and Governance policy within the treasury management risk framework; as included in Appendix B.

- Maintenance of the knowledge and skills register for individuals involved in the treasury management function as addressed in 1.4.

- The adoption of Quarterly reporting for the year 2023/24 as detailed in 1.1

5.3 **Balanced budget requirement** - the Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2023/24

1.1 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
General Fund	13.864	6.076	4.197	1.135	1.112

1.2 Affordability Prudential Indicators

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:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%	%
Ratio	1.34%	-4.59%	-13.08%	-9.39%	-6.55%

The estimates of financing costs include current commitments and the proposals in this budget report.

1.3 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. However as the Council currently has only two significant loans, the upper limits need to be set very high. The Council does not have any variable rate borrowing.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	80%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
Over 10 years	0%	60%

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG (now DLUHC) issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, which will apply to all investment activity. In accordance with the Code, the Council will comply with the treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

ESG considerations – The Council will consider Environmental, Social and Governance factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty the Councils will consider placing future investments with other counterparties. A process of ongoing monitoring is underway for existing counterparties using ESG tracking services and available indices of bribery and corruption for the countries of domicile for the proposed counterparties. This is maintained by the SSA's Group Accountant (Strategic Finance).

Whilst there are no concerns regarding our banker, for operational reasons the Councils' own banker Lloyds bank is required to be exempt from this approach as we are contractually bound to them for the duration of our banking contract. These factors will always be considered when the contract is renewed.

SPECIFIED AND NON SPECIFIED INVESTMENTS

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

Specified Investments will be those that meet the criteria in the MHCLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year or where the Council has the right to be repaid within 12 months or where the investment would have been classified as specified apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under 12 months
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

These are considered low risk assets where the possibility of loss of principal or investment income is small.

"Specified" Investments identified for the Council's use are:

- The UK Government such as the Debt Management Account Deposit Facility – there is no limit for these investments.
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Pooled investment vehicles such as AAA Money Market Funds with a Constant Net Asset Value (Constant NAV) or appropriate Low Volatility Net Asset Value (LVNAV) that have been awarded an AAA rating by Standard and Poor's, Moody's and/or Fitch rating agencies.
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

* Investments in these instruments will be on advice from the Shared Service's treasury advisor.

Non Specified Investments

These are any investments which do not meet the specified investment criteria. Where appropriate, the Council will seek further advice on the associated risks with non-specified investments.

All Investments

For credit rated counterparties, the minimum criteria, excepting for the Council's own banker and the specified building societies, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard and Poor's, Fitch Ratings, being:

Long-term investments (over 365 days): minimum: A- (Fitch) or equivalent
Or
Short-term investments (365 days or less): minimum: F1 (Fitch) or equivalent

For all investments the Shared Service will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

If the Council's own banker (currently Lloyds Bank) falls beneath the specified criteria, it will still be used for transactional purposes.

Where appropriate the Ring-Fenced entities of banks will be used.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as detailed below.

APPROVED INVESTMENT INSTITUTIONS

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) Banks

Major U.K. and Foreign Banks and their wholly owned subsidiaries meeting the Council's approved investment criteria. RFB refers to Ring Fenced Bank – the separate core retail banking service.

	Counterparty	Group	Maximum Sum	Maximum Period *
	DMADF, DMO (Government)	N/A	No limit	
1	HSBC UK Bank PLC (RFB)	N/A	£5m	5 years
2	NatWest/ Royal Bank of Scotland Group (RFB)	£5m	£5m	5 years
3	Lloyds/ Bank of Scotland Group (RFB)	£7m	£7m	5 years
4	Barclays Bank UK PLC (RFB)	N/A	£5m	5 years
5	Santander UK PLC	N/A	£5m	5 years
6	Clydesdale Bank PLC	N/A	£4m	5 years
7	Handelsbanken PLC	N/A	£5m	1 year
8	Goldman Sachs International Bank	N/A	£5m	5 years
9	Close Brothers Ltd	N/A	£5m	5 years
10	Standard Chartered Bank	N/A	£5m	5 years
11	The Australia and New Zealand Banking Group	N/A	£3m	1 year

*Specified investments are for a maximum period of 1 year, the maximum limits shown in this column are for non-specified investments with these institutions.

(b) Building Societies

Building Societies (Assets in excess of £1 billion):

Rank	Name of Counterparty	Individual	
		Sum	Period*
1	Nationwide	£4m	3 years
2	Coventry	£4m	3 years
3	Yorkshire	£4m	3 years
4	Skipton	£4m	3 years
5	Leeds	£4m	3 years
6	Principality	£3m	3 years
7	West Bromwich	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Cumberland	£3m	3 years
11	National Counties (Family)	£3m	3 years
12	Progressive	£3m	3 years
13	Cambridge	£3m	3 years
14	Monmouthshire	£3m	3 years
15	Newbury	£3m	3 years
16	Saffron	£3m	3 years
17	Leek United	£3m	3 years
18	Furness	£3m	3 years

(c) Money Market Funds

Counterparty	Sum	
Invesco Aim – Sterling	£3m	For Short Term Operational Cash Flow Purposes
Blackrock Institutional Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
HSBC Global Liquidity Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
CCLA Public Sector Deposit Fund	£3m	
JP Morgan GBP Liquidity LVNAV Fund	£3m	
Federated Short-Term Sterling Prime Liquidity Fund	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed the higher of £9m or 25% of the total investment portfolio, for more than one week at any one time.

(d) Local Authorities

Details	Individual	
	Sum	Period*
All Local Authorities	£5m	1 year

*Specified investments are for a maximum period of 1 year, the maximum period limits shown in (b) and (d) are for non-specified investments with these institutions.

APPENDIX D

NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies	√ √	 √	5 years	The higher of £10m or 50% of funds	No
• Deposits with Local Authorities	√		5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £9m or 25% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority – specifically the Local Authorities' Property Fund	√	√	These funds do not have a defined maturity date.	The higher of £6m or 25% of funds	No
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Subject to test

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 as at

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- New Zealand

AA-

- Belgium
- U.K.

NB Consideration will be given to other factors, including Environmental, Social and Governance standards when considering the destination country of Non-UK investments. As such countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

NB As detailed in it has been determined that the UK will remain an approved country for investment regardless of its sovereign rating. This is due to the avoidance of such investments being operationally prohibitive.

In determining the period to maturity of an investment, the investment is regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

The Council will seek further advice on the appropriateness and associated risks with investments in these Non-Specified investment categories, other than those which would be Specified other than for the duration of over 12 months (for example a 2-year fixed term deposits with a bank on the counterparty list).

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council's Shared Service receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Shared Service, and if required new counterparties which meet the criteria will be added to the list.

APPENDIX E

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) **Full Council**

- approval of annual treasury management strategy and Annual Investment Strategy
- approval of MRP Statement

(ii) **Executive Committee (e.g., Cabinet)**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) **Audit Committee**

Receiving and reviewing the following, and making recommendations to the Cabinet

- regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

(iv) **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

APPENDIX F

Economic backdrop provided by Link Advisory

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.

However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, 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).

. The current margins over gilt yields are as follows: -.

§ **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

§ **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

§ **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)

INTERNAL AUDIT PROGRESS REPORT

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Committee Services, Email: committees@midsussex.gov.uk
Wards Affected:	None
Key Decision:	No
Report to:	Audit Committee
	21st February 2023

Purpose of Report

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. This report covers audit activity and performance from 15 November 2022 to 10 February 2023.

Recommendation

2. **The Committee is asked to receive the report.**

Policy Context

3. 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.

Other Options Considered

4. None.

Financial Implications

5. There may be 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 consideration of the recommendations raised. Some audit recommendations are also designed to improve value for money and financial control.

Risk Management Implications

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

Sustainability Implications

7. None.

Equalities and Customer Service Implications

8. None.

Other Material Implications

9. None.

Appendices

- Appendix A - Mid Sussex District Council - Internal Audit Progress Report for the November 2022 to February 2023 Period

Background Papers

None.

APPENDIX A

Mid Sussex District Council - Internal Audit Progress Report

For the November 2022 to February 2023 Period

February 2023

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.

The Report was prepared solely for the use and benefit of MSDC, and to the fullest extent permitted by law, Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Further details are provided in Appendix A3, “Statement of Responsibility”.

01 Introduction

The Audit Committee (Committee) approved the 2022/23 Internal Audit Plan (Plan) on 20 September 2022. The purpose of this report is to outline the following in respect of Internal Audit Activity during the period since the last Committee in November 2022:

- 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.

02 Current Progress

Since the last Committee, we have agreed on audits' start dates with the relevant Services within the Council. For this reporting period, three audits started and had their fieldwork completed (Business Rates, Disabled Facilities Grants (DFG) and Accounts Payable).

As previously reported to the Committee the phasing of work in the prior year's plan saw the majority of audits commence in Q4. Compared to our position reported in March last year, there is an improvement in progress, with more work starting in early Q4.This should allow us to complete the fieldwork for all audits in the Plan by 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 **IT Audits Needs Assessment**, in which we identified a number of auditable areas. In turn, we then classified these auditable areas as either 'High' (H) or 'Medium' (M) risk to be delivered over the three years based on risk as well as organisational preparedness for the audits.

• We have issued our draft report for the 2022/23 **Disabled Facilities Grants** audit on 13 February 2023 .

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.

• We have completed fieldwork on the **Accounts Payable** audit. The draft report is at the review stage.

• The **Financial Management System (FMS)** audit started on 8 February 2023 and is currently at fieldwork stage.

• The **Commercial Property Estate** audit started on 10 February 2023 and is currently at fieldwork stage.

• The **Accounts Receivable** audit is due to commence on the 17 February and is currently at fieldwork stage.

• The **HR Recruitment** audit is due to start on 20 February 2023.

• The **Building Controls** audit is due to commence on the 6 March 2023.

• The **Freedom of Information Requests/DPA** audit is due to commence on the 8 March 2023.

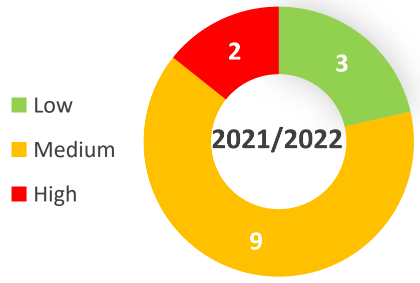
• The **NFI Data Matching** testing is due to commence in March 2023.

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.

Four recommendations were due in this reporting period and were all followed up by Internal Audit. We confirmed with the relevant Officers and Senior Council Officers that all four had been actioned as agreed. There are a further 14 recommendations that were raised during 2021/22 but are still within the agreed timescales for implementation and, therefore, not reviewed. Priorities for recommendations raised and to be implemented are as follows:



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

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 September 2022 Committee Meeting, the Chair requested Internal Audit to provide guidance on "what Internal Audit expects from the Committee and its Members". In December 2022, we hosted a discussion forum for local authority Audit Committee Members, in which our team considered the role and purpose of an Audit Committee.

Our team of experts have put together two videos which we hope will help. In the first recording, The Role of the Audit Committee, experts at Mazars explain what audit committee members need to be aware of; how to develop a strong and effective Audit Committee and what questions you should be asking so that an Audit Committee helps public bodies develop good governance, ethical values, effective financial management and reporting to build and maintain public trust and confidence.

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

A1 Current Progress – 2022/23 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Disabled Facilities Grants (DFG)	Draft issued	Substantial*	-	-	1
Business Rates	Fieldwork Complete	-	-	-	-
Accounts Payable (Creditors)	Fieldwork Complete	-	-	-	-
Financial Management System	Started 08/02/2023	-	-	-	-
Commercial & Investment Property Portfolio	Started 10/02/2023	-	-	-	-
Accounts Receivable (Debtors)	Started 17/02/2023	-	-	-	-
HR - Recruitment and Retention	Started 20/02/2023	-	-	-	-
Building Controls	Starts 06/03/2023				
Freedom of Information Requests / DPA	Starts 08/03/2023				
NFI – Data Matching	Work to commence in March 2023	-	-	-	-
IT					
IT Disaster Recovery	Work to commence in April 2023	-	-	-	-
Data Security	Work to commence in April 2023	-	-	-	-
Total			**0**	**0**	**1**

*Draft reports currently awaiting management responses, which may lead to changes in content, including assurance levels and/or recommendation

A2 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.

A3 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk

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INTERNAL AUDIT STRATEGY AND PROPOSED OPERATIONAL PLAN 2023/2024

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Committee Services, Email: committees@midsussex.gov.uk
Wards Affected:	All
Key Decision:	No
Report to:	21 February 2023

Purpose of Report

1. This report sets out the Internal Audit Strategy and proposed Operational Plan (Plan) for 2023/24 and details how the Council will meet its statutory requirements for Internal Audit.

Summary

2. The report explains that the overall level of audit coverage has been 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.

Recommendation

3. **The Committee is asked to comment on the detailed Internal Audit Plan for 2023/2024 prior to implementation.**

Policy Context

4. Receiving this report enables the Audit Committee to perform its duties under the Accounting and Auditing regulations

Other Options Considered

5. None.

Financial Implications

6. There are financial implications related to the delivery of the proposed Plan for 2023/24 and the days included. A sufficient budget needs to be set aside to cover delivery costs.

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

Risk Management Implications

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

Sustainability Implications

9. None.

Equalities and Customer Service Implications

10. None.

Other Material Implications

11. None.

Appendices

- Appendix A - Internal Audit Strategy and Proposed Operational Plan 2023-24

Background Papers

None

APPENDIX A

Mid Sussex District Council

Internal Audit Strategy and Proposed Operational Plan 2023-24

February 2023

Contents

Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Mid Sussex District Council (Council), 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.

The Report was prepared solely for the use and benefit of the Council, and to the fullest extent permitted by law, Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Further details are provided in Appendix A2, “Statement of Responsibility”.

01 Introduction

This report sets out the Internal Audit Strategy (Strategy) and proposed Operational Plan (Plan) for 2023/24, and which details how Mid Sussex District Council (Council) will meet its statutory requirements for Internal Audit.

02 Background

The fundamental role of Internal Audit is to provide senior management and Members with independent assurance on the internal control system's adequacy, effectiveness, and efficiency and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work following consideration of the Operational Plan (Plan) by the Assistant Director Corporate Resources (as the Section 151 Officer) and approval by the Council Audit Committee (Committee). As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for developing the Plan was the Council's Risk Register.

The Council's Internal Audit Service is delivered following a regulatory framework comprising:

• The Local Government Finance Act 1972 requires Councils to 'make arrangements for the proper administration of their financial affairs;

• The Accounts and Audit Regulations 2015. These require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'; and

• The UK Public Sector Internal Auditing Standards (PSIAS). These standards set out what is meant by appropriate internal audit practices. These mandatory standards replaced the former CIPFA Code of Practice for Internal Audit in Local Government 2006.

The Strategy is a high-level statement that outlines how the Internal Audit Service will be delivered to meet the requirements set out above. The PSIAS no longer make specific reference to a strategy document. However, they require that the information be communicated to the Audit Committee (or equivalent) to support audit planning and resources discussion.

03 Internal Audit Strategy

This Strategy recognises that management's responsibility is to establish and maintain a sound internal control system and ensure that risks are appropriately managed. Internal audit work aims to establish areas requiring improvement and recommend solutions to enable the Council to achieve its objectives.

The Strategy and planning process reflects that the control environment constantly changes, requiring continuous review and re-evaluation to ensure that emerging risks are identified, assessed, and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in-built flexibility to consider:

• Greatest risks to the achievement of the Council's objectives;

• New areas of activity;

• Issues of local significance and importance;

• Changing issues and priorities;

• Changes to models for service delivery and partnership working; and

• The impact of changes on existing control structures.

The purpose of the Strategy is to establish an approach that will enable Internal Audit to be responsive to change and managed in a way that will facilitate:

• An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk management, control and governance framework, to support the Annual Governance Statement;

• Internal Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises internal audits accordingly;

• The identification of internal audit resources required to deliver a service which meets the PSIAS and achieves the necessary level of audit coverage to enable an opinion to be given on the Council's control environment;

• The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity; and,

• Identification of responsibilities for providing assurance where services are delivered in partnership.

Based on the budget available for internal audit work, the Strategy and internal audit work make provision for:

• Sufficient coverage of all significant financial systems to provide the necessary audit assurance;

• New systems and emerging high-risk areas;

• Cross-cutting reviews for a selection of corporate themes which link to the Risk Register;

• Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;

• Monitoring the implementation of internal audit recommendations categorised as high; and

• An element for a contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.

The Plan is prepared based on a risk assessment combined with an understanding of other sources of assurance which are then compared to the internal audit resources available. Given the level of internal audit resources available, internal audit work must be planned and focused to ensure efficient and effective use of resources directed at those areas of most significant risk to the Council.

The Internal Audit function, including the Head of Internal Audit role, is outsourced by the Council to Mazars LLP under the London Borough of Croydon APEX Framework.

04 Development of the Operational Plan 2023/24

The Plan for 2023/24 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.

The main factors taken into account in compiling the Plan consist of:

• Materiality and significance based upon budgets and volume of transactions;

• Historical knowledge and experience accumulated in Internal Audit, based upon the results of previous audits;

• Changes to the control environment or legislative changes since the previous internal audit;

• A review of internal audit themes against the Council's Risk Register and corporate objectives;

• Other sources of assurance available to the Council;

• Concerns and emerging risks as identified by the management team, including the Assistant Director Corporate Resources and attendance and presentation to the Management Team; and,

• Mazars Horizon Scanning of issues affecting all Local Authorities (https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Transforming-your-organisation/Horizon-Scanning).

The total number of internal audit days allocated for 2023/24 is 230 which is 10 days over the allocation for 2022/23. It includes 31 days for IT audit, 10 days for the Head of Internal Audit role and 15 days Contingency to be used in the event of any changes required to the Plan in year i.e., new/emerging risk areas, additional testing, etc.

The resources are allocated to ensure that sufficient high-risk areas are audited to allow the Head of Internal Audit to provide an effective annual opinion on the internal control environment. The proposed 2023/24 Plan is presented in **Appendix A1**.

A1 Proposed Operational Plan 2023/24

	Title	Source	Scope/Notes	Indicative Days
Risk-Based Internal Audits				
1	Grants	Management Team	A review of the effectiveness and processes in place to ensure grants across the Council are managed consistently with returns undertaken promptly and effectively.	12
2	Local Land Charges Planning and Building Control Support Services	Management Team	Fee Setting and Notification; Local Land Charge Searches; Income; Reliability of Source Data; Register Management; Complaints and Liabilities; Performance Information.	12
3	Corporate Debt Management	Management Team	Policies and Procedures; Roles and Responsibilities; Debt Recovery Action; Write-Offs; Management Information	12
4	Electoral Services	Management Team	Collection of Voter Information; Maintenance of the Electoral Register; Issue of Voting Cards; Governance and Procedures; Employment and Payment of Election Staff; Third-Party Arrangements and Payments (including expenses)	12
5	Contract Management – Legal Services	Management Team	Contracts; Contract Monitoring; Billing Arrangements; Payment of Bills; Budget Monitoring; Management and Performance Information.	12
6	Environmental Health	Management Team	Scope to be determined	12
7	Complaints	Management Team	Policies and Procedures; Receipt, Recording and Allocations; Investigations; Review and	10

	Title	Source	Scope/Notes	Indicative Days
Risk-Based Internal Audits				
			Issue of Responses; Performance Monitoring and Reporting	
8	Gifts and Declaration of Interests (Members)	Management Team	Policies and Procedures; Gifts and Hospitality; Allowances and Expenses; Conduct Including DoIs; Management Review of Registers	10
9	Sickness Absence and Annual Leave Management	Management Team	Policies and Procedures; Recording and Certification of Sickness Absence; Recording and Certification of Annual Leave; Return to Work (Sickness absence); Management of Long Term or Repeated Period of Sickness; Monitoring and Reporting	12
10	HR – Starters and Leavers	Management Team	Policies and Procedures; New Starters Approvals and Grading; Pre-Employment Checks (including DBS); Salaries and Contracts; Leavers	10
11	NFI – Data Matching	Counter Fraud Work	Testing of data produced by the NFI	30
IT Audits				
12	IT Applications Controls Testing	Audit Needs Assessment	Scope to be determined.	10
13	Data Security	Audit Needs Assessment	Scope to be determined.	10
14	Digital Strategy Realisation	Audit Needs Assessment	Scope to be determined.	10
15	Follow ups	Audit Needs Assessment	N/a	1
Other Work				
16	Follow Up on IA Reviews	Ongoing	N/a	10
17	Management	Ongoing	N/a	20
18	Head of Internal Audit	Ongoing	N/a	10

	Title	Source	Scope/Notes	Indicative Days
Risk-Based Internal Audits				
19	Contingency	Subject to nature of request	Subject to nature of request	15
			Total Audit Days	**230**

A2 Statement of Responsibility

We take responsibility to Mid Sussex District Council 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 preventing and detecting 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 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 applying sound management practices.

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