

20 November 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, 28TH NOVEMBER, 2023 at 7.00 pm** when your attendance is requested.

Yours sincerely,  
KATHRYN HALL  
Chief Executive

#### **A G E N D A**

	<b>Pages</b>
1. To receive apologies for absence.	
2. To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
3. To be agreed by general affirmation the Minutes of the previous meeting held on 18 September 2023.	<b>3 - 6</b>
4. To consider any items that the Chairman agrees to take as urgent business.	
5. Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 to 2026/27.	<b>7 - 34</b>
6. Review of Treasury Management Activity 1 April - 30 September 2023.	<b>35 - 54</b>
7. Internal Audit Annual Report 2022/23.	<b>55 - 68</b>
8. Capital Strategy 2024/25-2027/28.	<b>69 - 80</b>
9. Strategic Risks 2023/24.	<b>81 - 96</b>

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10. Audit Committee Work Programme 2023/24. **97 - 98**

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

To: **Members of Audit Committee:** Councillors S Hicks (Chairman), R Bates (Vice-Chair), J Belsey, L Carvalho, C Cherry, R Clarke and M Cornish

## **Minutes of a meeting of Audit Committee held on Monday, 18th September, 2023 from 7.00 pm**

**Present:** S Hicks (Chairman)  
R Bates (Vice-Chair)

L Carvalho

R Clarke

M Cornish

**Absent:** Councillors J Belsey and C Cherry

**Also Present:** Councillor Cooke

**1. TO RECEIVE APOLOGIES FOR ABSENCE.**

Apologies were received from Councillor J Belsey and Cherry.

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

None.

**3. TO BE AGREED BY GENERAL AFFIRMATION THE MINUTES OF THE PREVIOUS MEETING HELD ON 19 APRIL AND 24 MAY 2023.**

Louise Duffield, Director of Resources and Organisational Development confirmed the minutes of the meetings held on 19 April and 24 May 2023 were a correct record. The Committee agreed the minutes and they were signed by the Chairman.

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

None.

**5. FINANCIAL STATEMENTS 2021/22.**

Louise Duffield, Director of Resources and Organisational Development gave a brief introduction to the reports, the audit of the 2021/22 accounts is complete resulting in an unqualified opinion. She noted that the 22/23 accounts are now available for public inspection..

Katie Lean, Ernst & Young (EY) introduced the reports, noting the Mid Sussex District Council Audit Results Report would be presented first, followed by Auditors Annual Report. She highlighted the key areas of work including, changes to the planned audit procedures, additional audit procedures and status. The report sets out the key areas of audit work and focus and the significant risks and recommendations. She noted the valuation of property investment work and the adjustment to the

accounts as a result of the pension liability valuation. In terms of risk assessment to value for money none have been identified.

Kevin Suter, Ernst & Young (EY) advised Members an objection to the 2021/22 accounts had been received in relation to Compliance of Contract Regulations. EY established the payments were below the Public Contract Regulations thresholds. Having completed their enquiries the objection was rejected for further consideration based on the above.

He advised information had also been received from a member of the public regarding severance payments to the former s151 officer. EY reviewed the matters which required extensive investigating and resulted in no challenge to the Councils payments, this was at a significant cost to the Council to undertake this work.

In relation to the severance payments investigation a Member asked for clarity on the final fees 2021/22 and planned fees 2020/21 figures at p78 of the report. Katie Lean advised the planned fees 2020/21 should be the final fees 2020/21. Kevin Suter confirmed this and the report would be updated and reissued.

In response to the Chairmans query regarding external audit costs and fees on p140 of the report, Kevin Suter advised the additional fees would be reflected in the 2022/23 set of accounts with a disclosure notice.

In relation to p55, paragraph 7 of the report and the conclusions made by E&Y, a Member asked how this would be avoided in future. The Director of Resources and Organisational Development advised steps had been taken. She noted that the 2020/21 and 2021/22 Audit reports had been issued in quick succession hence the repeated similar points. She advised steps have been taken to address this for the future, though noting that the matter was not a material value.

Katie Lean, gave a brief summary of the Auditors Annual Report which brings together the work of E&Y and sets out the results and findings of this work, in relation to value for money.

As there were no further questions, the Chairman took Members to a vote on the recommendations, which were agreed with 5 in favour.

## **RESOLVED**

The Committee:

- i. Agreed the Auditors Annual Report having considered the Audit Results report;
- ii. Approved the Financial Statements and Letter of Representation for the year ending 31 March 2021;
- iii. Agreed that the Chair sign the above on behalf of the Committee.

## **6. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2022/23.**

Louise Duffield, Director of Resources and Organisational Development, gave a brief introduction, noting the continued work and excellent value for money service provided by Adur & Worthing Council, reflected in the renewal earlier in the year of the Service Level Agreement (SLA) with them.

Joseph Saville, Adur & Worthing Councils, introduced the report, advising it was a reflection of activities from 2022/23 with the requirement to report on prudential indicators. It was important to note the service had operated within the boundaries set out by the Treasury Management System as required for the year 2022/23. The service had continued to maximise yield and minimise risk, due to nature of the Council's investments. He noted the Council had exceeded investment income, largely due to low interest rates when the budget was set. He drew Members attention to the Local Authorities Investment Fund, advising it was important to note this was a long-term projection.

The Chairman was pleased with the Councils current revenue and investment position.

A Member asked for clarity on the Minimum Revenue Provision (MRP) figures. Joseph Saville explained the process and the Director of Resources and Organisational Development advised specific treasury management training would be scheduled for Members in January 2024.

As there were no further questions, the Chairman took Members to a vote on the recommendations, which were approved unanimously with 5 in favour.

## **RESOLVED**

The Committee:

- i. Noted the contents of the report;
- ii. Recommended to propose that Council agree the 2022/23 prudential indicators; and
- iii. Noted the Treasury Management Annual Report at Appendix A.

## **7. AUDIT COMMITTEE WORK PROGRAMME 2023/24.**

Louise Duffield, Director of Resources and Organisational Development, introduced the report with the recommended programme of work for the remainder of the financial year. She highlighted the number of items scheduled for the November Committee, due to budget setting process and welcomed feedback and comments from Members.

The Chairman advised Members he had requested the Committee receive updates on Internal Audit items at the remaining Committee meetings. The Director of Resources and Organisational Development advised there would be substantial updates at the November 2023 meeting and confirmed an interim update would be provided at the March 2024 meeting.

As there were no questions, the Chairman took Members to a vote on the recommendation which was agreed unanimously with 5 in favour.

## **RESOLVED**

The Committee noted the contents of the report and approved the Work Programme as set out in paragraph 7 of the report.

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

None.

The meeting finished at 7.30 pm

Chairman

## TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2024/25 TO 2026/27

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT  
Contact Officer: Rachel Jarvis, Assistant Director Corporate Resources (S151)  
Email: [rachel.jarvis@midsussex.gov.uk](mailto:rachel.jarvis@midsussex.gov.uk)  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee,  
28 November 2023

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### Purpose of Report

1. The report attached at Appendix A 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 February 2023 except for the following amendments:
  - (i) Add Lloyds Bank Corporate Markets to the list of approved counterparties.
  - (ii) Increase the counterparty limit for Lloyds Group Entities from £7m to £9m.

### Recommendations

3. **The Audit Committee is asked to consider the draft Strategy, provide any feedback it feels is appropriate, and recommend to Council for approval:**
  - (i) **the proposed Treasury Management Strategy Statement (TMSS) for 2024/25 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.**

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### 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 yields 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 is 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.
8. The contribution the treasury management function makes to the authority is critical to ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. 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.

### **Other Options Considered**

12. 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.

## **Appendices**

- Appendix A - Treasury Management Strategy Statement & Annual Investment 2024/25 to 2026/27

## **Background Papers**

- Treasury Management Strategy Statement & Annual Investment Strategy 2023/24 to 2025/26 (February 2023)
- Annual Review of Treasury Management 2022-23 (September 2023)
- Review of Treasury Management Activity 1 April – 30 September 2023 (on this agenda)
- 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)
- Draft Corporate Plan 2024/25
- Link Asset Services report template 2023/24

## Appendix A

### Treasury Management Strategy Statement & Annual Investment 2024/25 to 2026/27

#### 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 on 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 but do require to be adequately scrutinised. It is intended to include this reporting as part of one of our existing reports.

##### 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 2024/25

The strategy for 2024/25 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 13<sup>th</sup> December 2022. Similar training is being arranged for January 2024. 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 2024/25 – 2026/27

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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	4.633	12.377	10.310	2.256	1.054

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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	0.746	2.981	0.413	0.299	0.079
Capital grants, Contributions & S106 receipts	2.837	5.701	8.664	1.882	0.900
General Reserves, Specific Reserves & Revenue Contributions	1.050	3.695	1.064	0.075	0.075
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 scheme include a borrowing facility, 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:

<b>Capital Financing Requirement £m</b>	<b>2022/23 Actual</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Total CFR at 31/03	6.114	5.714	5.307	4.894	4.481
Movement in CFR	(0.547)	(0.401)	(0.407)	(0.413)	(0.419)
<b>Movement in CFR represented by:</b>					
Net financing need for the year (above)	(0.000)	0.000	0.000	0.000	0.000
Less MRP and other financing movements	(0.547)	(0.401)	(0.407)	(0.413)	(0.419)
<b>Movement in CFR</b>	<b>(0.547)</b>	<b>(0.401)</b>	<b>(0.407)</b>	<b>(0.413)</b>	<b>(0.419)</b>

### 2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). this is shown in the Mid-Year review elsewhere on the agenda.

### 2.4 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 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 2023 and for the position as at 30 September 2023 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 31.03.2023 £m	Actual 31.03.2023 %	Principal at 30.09.2023 £m	Actual 30.09.2023 %
<b>External Borrowing</b>				
PWLB	(0.000)	0%	(0.000)	0%
Finance lease	(1.676)	100%	(1.526)	100%
<b>TOTAL BORROWING</b>	<b>(1.676)</b>	<b>100%</b>	<b>(1.526)</b>	<b>100%</b>
<b>Treasury Investments:</b>				
Local Authority Property Fund	5.584	8%	5.512	6%
<b>In-house:</b>				
Banks	21.041	37%	27.360	31%
Building societies - unrated	27.500	15%	24.000	26%
Building societies - rated	11.000	24%	19.000	21%
Debt Management Office	18.000	7%	8.000	9%
Local authorities	8.000	11%	4.000	4%
Money market funds	4.230	6%	3.170	3%
<b>TOTAL INVESTMENTS</b>	<b>74.315</b>	<b>100%</b>	<b>91.042</b>	<b>100%</b>
<b>NET INVESTMENTS</b>	<b>72.639</b>		<b>89.516</b>	

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.

<b>External Debt £m</b>	<b>2022/23 Actual</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Debt at 1 April	0.152	0.000	0.000	0.000	0.000
Expected change in Debt	(0.152)	(0.000)	(0.000)	(0.000)	0.000
Other long-term liabilities (OLTL)	1.970	1.676	1.375	1.069	0.756
Expected change in OLTL	(0.294)	(0.301)	(0.306)	(0.313)	(0.319)
Actual gross debt at 31 March	1.676	1.375	1.069	0.756	0.436
The Capital Financing Requirement	6.114	5.714	5.307	4.894	4.894
Under borrowed	4.438	4.339	4.238	4.138	4.458

The Council's only debt comprises of a finance lease categorised as "other long term liability".

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

The Assistant Director of 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.

<b>Operational Boundary</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt	£28.0m	£28.0m	£28.0m	£28.0m
Other long-term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
<b>Total</b>	<b>£32.0m</b>	<b>£32.0m</b>	<b>£32.0m</b>	<b>£32.0m</b>

**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:

<b>Authorised Limit</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt	£30.0m	£30.0m	£30.0m	£30.0m
Other long-term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
<b>Total</b>	<b>£34.0m</b>	<b>£34.0m</b>	<b>£34.0m</b>	<b>£34.0m</b>

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.

### 3.3 **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. Refer to section 4 of the Mid Year review elsewhere on the agenda.

**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.

### 3.4 **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.

### 3.5 **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

### 3.6 **Debt rescheduling**

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

### 3.7 **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 Council’s 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 remain the same as for 2023/24 except for:

- Add Lloyds Bank Corporate Markets to the list of approved counterparties.
- Increase the counterparty limit for Lloyds from £7m to £9m.

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:

Minimum acceptable **credit criteria** are applied in order to generate a list of highly credit-worthy 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.

**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.

**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.

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.

1. **Lending limits**, (amounts and maturity), for each counterparty are set out in Appendices C and D.
2. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.8).
3. 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.
4. 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.
5. All investments will be denominated in **sterling**.
6. 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.

#### 4.2 **Changes in risk management policy from last year**

The above criteria are unchanged from last year.

#### 4.3 **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, their 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), and 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.

#### 4.4 **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.

#### 4.5 **Creditworthiness**

Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

#### 4.6 **CDS prices**

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

#### 4.7 **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.

#### 4.8 **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.

#### 4.9 **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.

#### 4.10 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	
2023/24	4.30%
2024/25	5.00%
2025/26	3.00%
2026/27	2.30%
Long term later years	2.20%

#### 4.11 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	2024/25	2025/26	2026/27
Principal sums invested > 365 days	50%	50%	50%

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.

The Council's proposed investment activity for placing cash deposits in 2024/25 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.

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.

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.

#### 4.13 Investment risk benchmarking

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

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

#### 4.14 **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.

#### 4.15 **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 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.

### **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.

## Appendix A

### 1. THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2026/27

- 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	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
General Fund	4.633	12.593	10.115	2.233	1.054

### 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:

#### 1.3 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.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	%	%	%	%	%
Ratio	-3.45%	-17.58%	-18.69	-6.23%	-5.67%

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

#### 1.4 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 no loans.

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

Maturity structure of fixed interest rate borrowing 2024/25		
	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%



## Appendix B

### 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** – 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.

In line with the approved strategy, the service provider endeavours to undertake due care when reviewing counterparties ESG credentials. This is an on-going process of monitoring existing counterparties. As an example, the service provider reviews the money market fund's investments by geographical location, and it is in this regard the review highlighted that HSBC and Invesco had lent to The People's Republic of China. In consultation with the section 151 officer the decision was taken to disinvest from those funds. They still remain on the list of approved counterparties but will not be used until such a time as they meet the authority's requirements.

From time to time the authority invests in other local authorities as there is an active market for inter authority lending. The service provider will investigate authorities investing in sustainability projects and where appropriate recommend those as ESG investments.

The market for the environmental aspect of ESG is in its early stages; the service provider is actively talking to the market and will recommend investments deemed to have an appropriate balance of risk and yield.

The investment strategy keeps scope for investments with foreign counterparties very limited. Therefore, there is no likelihood for the Authority directly investing in countries with corrupt regimes or human right violations.

## **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 type of investment made, it will fall into one of 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.

## APPENDIX C

### 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	£9m	£9m	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	For Short Term Operational Cash Flow Purposes
Invesco Aim – Sterling	£3m	
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. Local Authorities where there is Government intervention are excluded.

## 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?
<ul style="list-style-type: none"> <li>• Deposits with banks and building societies</li> <li>• Certificates of deposit with banks and building societies</li> </ul>	√		5 years	The higher of £10m or 50% of funds	No
<ul style="list-style-type: none"> <li>• Deposits with Local Authorities</li> </ul>	√		5 years	The higher of £10m or 50% of funds	No
<b>Gilts and Bonds:</b> <ul style="list-style-type: none"> <li>• Gilts</li> <li>• Bonds issued by multilateral development banks</li> <li>• Bonds issued by financial institutions guaranteed by the UK government</li> <li>• Sterling denominated bonds by non-UK sovereign governments</li> </ul>	√ √ √ (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
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## APPENDIX D- ANNEX 1

### 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.



## 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.

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## REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2023

REPORT OF:	DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
Contact Officer:	Rachel Jarvis, Assistant Director Corporate Resources (S151), Email: rachel.jarvis@midsussex.gov.uk
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee 28 November 2023

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### Purpose of Report

1. The report attached as Appendix A sets out the Council's Treasury Management activity for the half year to 30 September 2023.

### Summary

2. The shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement. Interest rates on investments remain buoyant, due to the ongoing economic conditions, resulting in the continuation of windfall income for the half year. Compensating for the high inflationary pressures on service budgets.

### Recommendations

3. **The Committee is asked to consider this report, provide any comments it feels appropriate, and endorse the contents of the report and its appendices to Full Council.**
- 

### Background

4. The Treasury Management function of the Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The Service Level Agreement (SLA) was extended for a further three years from October 2022.
5. The 2023-24 Treasury Management Mid-Year Report produced by the Group Accountant (Strategic Finance) is attached as Appendix A. For completeness, the report covering the first quarter only is included as Appendix B.

### Policy Context

6. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a mid-year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the

world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Director of Resources and Organisational Development.

### **Other Options Considered**

7. None – this report is statutorily required.

### **Financial Implications**

8. 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**

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

### **Equality and Customer Service Implications**

10. None

### **Sustainability Implications**

11. None

### **Appendices**

- Appendix A - 2023-24 Treasury Management Mid-Year Report
- Appendix B - 1st Quarter Treasury Management Update Report Quarter ended 30th June 2023

### **Background Papers**

- Treasury Management Strategy Statement & Annual Investment Strategy 2023/24 to 2025/26 (Council 1<sup>st</sup> March 2023), and Review of Treasury Management Activity 2022/23 (Audit Committee 18<sup>th</sup> September 2023)
- Code of Practice on Treasury Management (CIPFA) and Treasury Management in the Public Services Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021)
- Department for Levelling Up, Housing and Communities Investment Guidance
- Statutory MRP guidance
- Link Asset Services report template (October 2023)

### 1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2023. The presentation of this report fulfils the requirements under the Council's treasury management policy.

### 2. BACKGROUND

#### 2.1 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.

#### 2.2 Treasury Management

The treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans, longer term cash flow planning to ensure the Council can meet its capital spending operations.

Accordingly, treasury management is defined as:

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

### 3. INTRODUCTION

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy for

the year ahead, a Mid-Year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

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

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

## 4. ECONOMICS AND INTEREST RATES

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

### 4.1 Economics update

#### 4.1.1 The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium, and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
  - The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
  - The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

## 4.2 Interest rate forecasts

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

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

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

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

## 5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by this Council on 1st March 2023. The details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.



There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

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

This part of the report is structured to update:

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

### 6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The increase is made up of a number of capital variations which are detailed in the Budget Management Reports to Cabinet on 13 November 2023. The Capital Programme for 2023/24, as approved at Council on the 1<sup>st</sup> March 2023, amounted to £5.735m. This was increased to £12.337m following additions to the programme and rescheduling of the 2022/23 programme as detailed in the Capital Programme Update reports on 13 November 2023.

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
<b>Total capital expenditure</b>	5.735	2.728	12.377

### 6.2 Changes to the Financing of the Capital Programme

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

	2023/24 Original Estimate	2023/24 Revised Estimate
	£m	£m
Total Capital Expenditure	5.735	12.377
Financed by:		
Capital receipts	2.386	4.308
Capital grants, S106 etc.	2.032	4.737
Reserves and revenue contributions	1.317	3.332
Total financing	5.735	12.377
Borrowing requirement	0.000	0.000

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

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

#### Prudential Indicator – Capital Financing Requirement

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

#### Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
<b>Prudential Indicator: Capital Financing Requirement</b>			
CFR – non housing	5.714	5.510	5.714
Net movement in CFR	(0.400)	(0.200)	(0.400)
<b>Prudential Indicator: The Operational Boundary for External Debt</b>			
	<b>Op Boundary</b>	<b>Actual</b>	<b>Op Boundary</b>
Borrowing	28.000	0.000	28.000
Other long term liabilities*	4.000	1.526	4.000
<b>Total debt</b>	<b>32.000</b>	<b>1.526</b>	<b>32.000</b>

\*finance leases

### 6.4 Limits to Borrowing Activity: Debt Compared with the Capital Financing Requirement

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The PWLB borrowing was fully repaid in 2022/23. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2023/24 Original Estimate	Actual at 30 Sept 2023	2023/24 Revised Estimate
	£m	£m	£m
Borrowing	0.00	0.000	0.00
Other long term liabilities*	1.375	1.526	1.375
<b>Total debt</b>	<b>1.375</b>	<b>1.526</b>	<b>1.375</b>
<b>CFR</b>	<b>5.714</b>	<b>5.510</b>	<b>5.714</b>

\*finance leases

## 6.5 Limits to Borrowing Activity: Debt Compared with the Authorised Limit

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

<b>Authorised Limit for external debt</b>	<b>2023/24 Original Indicator</b>	<b>Actual at 30 Sept 23</b>	<b>2023/24 Revised Indicator</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	30.000	0.000	30.000
Other long term liabilities	4.000	1.526	4.000
<b>Total</b>	<b>34.000</b>	<b>1.526</b>	<b>34.000</b>

## 6.6 Liability Benchmark

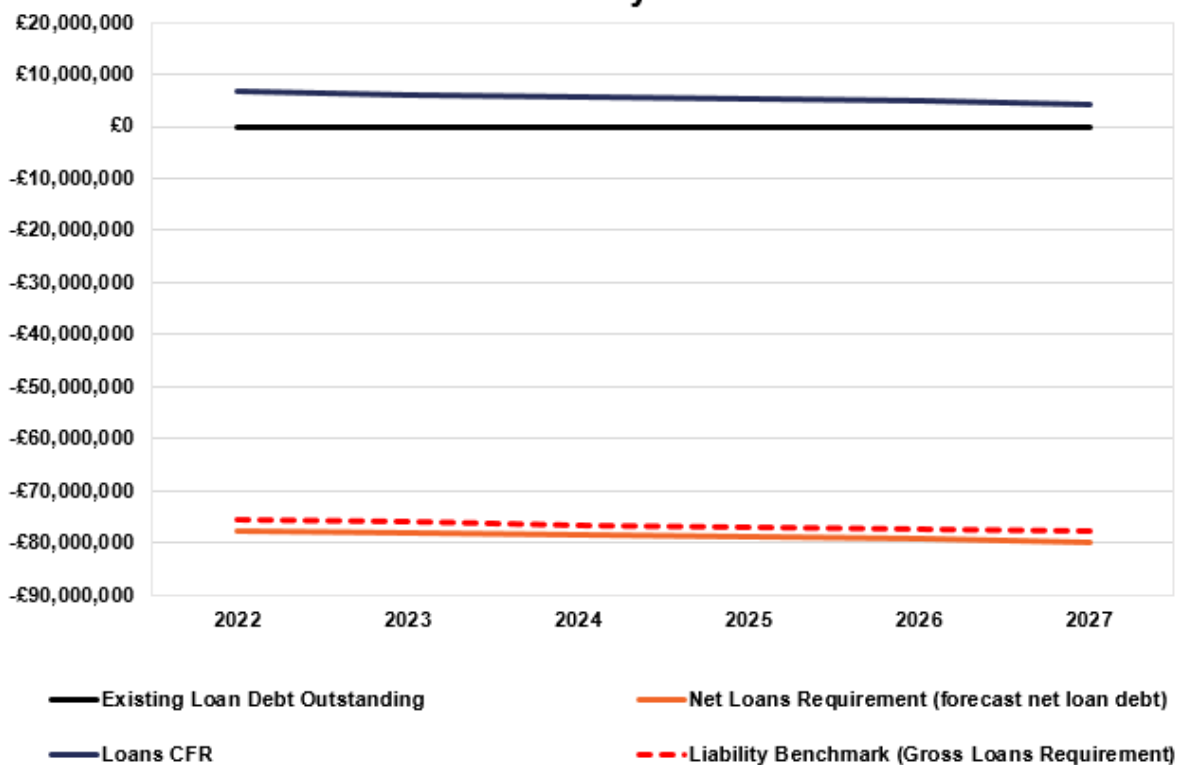
A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

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.

## Liability Benchmark



## 7 BORROWING

- 7.1 The Council's capital financing requirement (CFR) for 2023/24 is £5.714m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council currently has borrowings of £1.375m. This will be below the CFR, with the balance of the CFR funded from cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

The Council has not taken out any new borrowing in 2023/24. There was some temporary borrowing from 10 days for cash flow reasons as a result of a minor dealing error on the TM side, this was at no detriment to the Council. Occasionally, where commitments have been made to fixed-term investment deals, there are points where the cash flow reaches a trough. The service provider endeavours to keep a safe buffer of liquidity. On this occasion, the buffer was exceeded due to some large rate refunds. Worthing Borough Council provided the borrowing at a rate commensurate with the market rates at the time.

### 7.2 PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2023

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

We forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast

50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

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

## 8 DEBT RESCHEDULING

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

## 9 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Director of Resources and Organisational Development reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

## 10 ANNUAL INVESTMENT STRATEGY

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

As shown by the interest rate forecasts in section 10.3, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2023, at each meeting the decision has been made to increase the base rate until the September meeting when the rate was held at 5.25%, its highest since 2008's Global Financial Crisis. It is anticipated that a first rate cut to 5.00% will be in Q3 2024, to be followed by further rate cuts through the remainder of 2024 and into 2025.

Our investments continue to follow a low risk and largely short term strategy, with emphasis placed on laddering investments to even out maturity dates. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely.

### 10.2 Creditworthiness

Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

### 10.3 Investment Counterparty Criteria

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

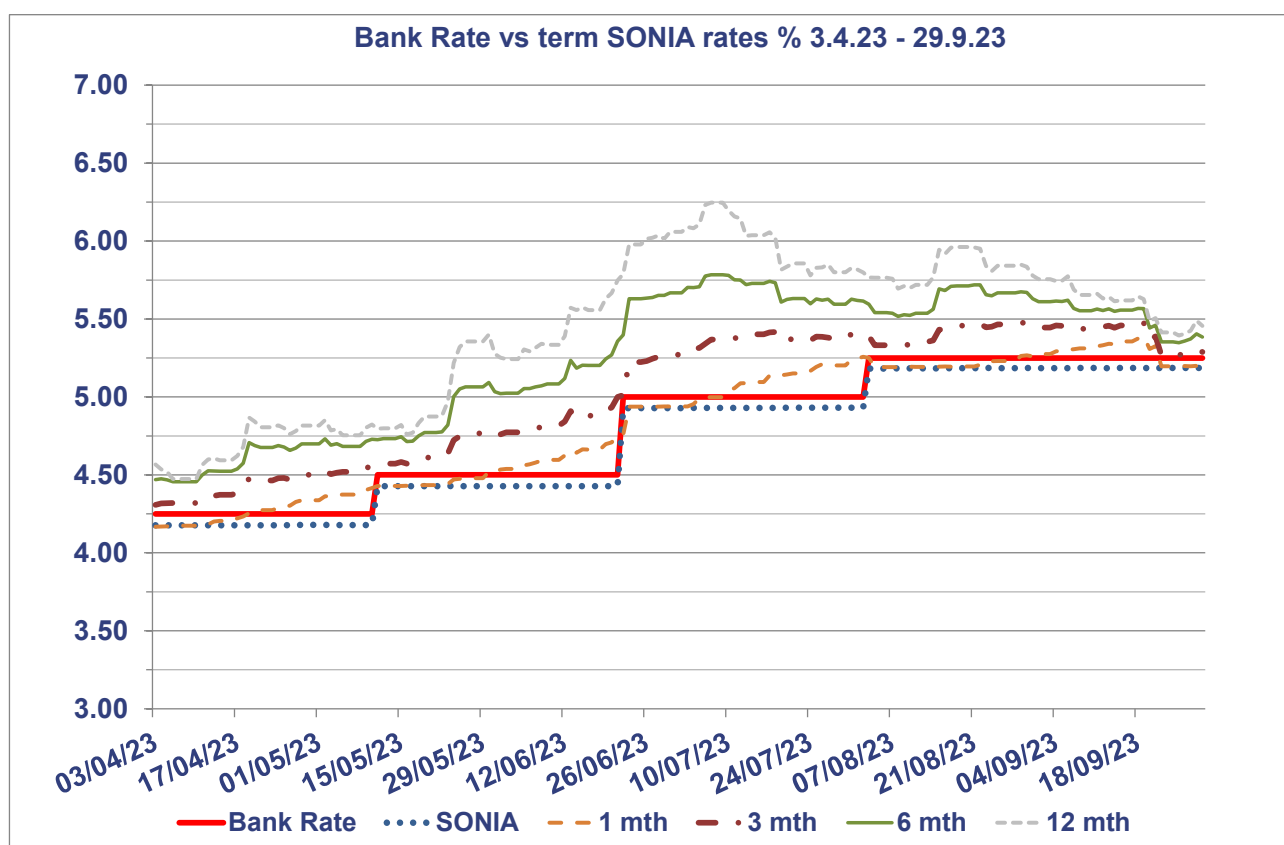
### 10.4 Credit Default Swap Prices

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

#### Investment balances

The average level of funds available for investment purposes during the 6 months, excluding the Council's £6m investment in the Local Authorities' Property Fund, was **£85.5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

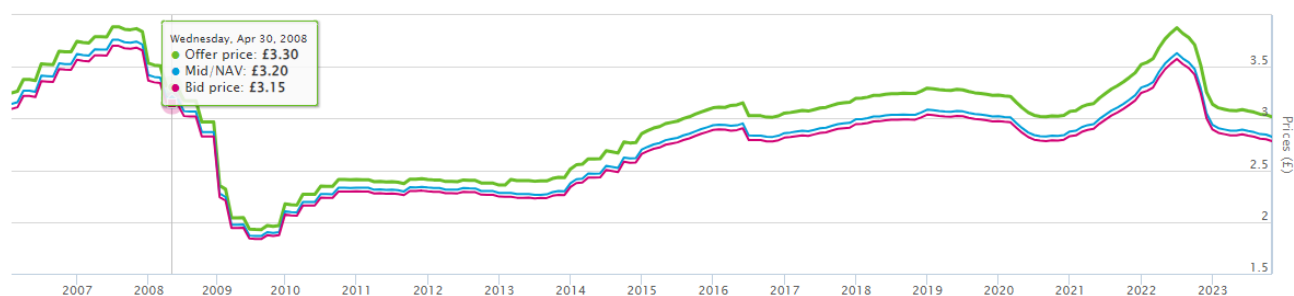
#### Investment rates during period ended 30<sup>th</sup> September 2023



### 10.4 Investment performance year to date as at 30 September 2023

The Council earned £1,591,426 in investment income of which £123,534 was from market funds, call accounts and notice accounts. This total excludes interest from the Council's £6m investment in the Local Authorities' Property Fund.

**Local Authorities' Property Fund** – the Council has invested £6m with the Local Authorities' Property Fund. Since 31<sup>st</sup> March the Property Fund has declined in value by £73k. This reflects the general decline in property prices in the UK. The fund should be viewed as long term. Losses occurred in 2008 from which the fund recovered. The fund has consistently provided good dividends and earned £140k in dividend income in for the first half of 2023/24.



## 10.5 Approved limits and Counterparties

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period to 30 September 2023.

**10.6** The current difficult economic situation has had a severe impact on the majority of Councils, but some are less well placed to manage the additional pressures caused by rising interest rates and general inflationary increases in wages, utilities and other costs. The service provider continues to monitor and take due care when recommending investments with other Local Authorities.

## 10.7 Investments at 30 September 2023

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Close Brothers Limited	11/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	26/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	26/09/2023	04/03/2024	£1,000,000	5.75%	A-
Close Brothers Limited	30/03/2023	30/09/2024	£2,000,000	4.75%	A-
Clydesdale Bank Plc	11/08/2023	09/08/2024	£2,000,000	5.65%	A-
Goldman Sachs International Bank	02/03/2023	01/03/2024	£1,500,000	4.65%	A+
Goldman Sachs International Bank	06/03/2023	05/03/2024	£1,000,000	4.69%	A+
Goldman Sachs International Bank	31/03/2023	28/03/2024	£1,500,000	4.96%	A+
Handlesbanken Fixed Term Deposit	06/04/2023	05/04/2024	£1,000,000	4.82%	AA
Handlesbanken Fixed Term Deposit	08/08/2023	08/08/2024	£3,000,000	5.54%	AA
Lloyds Bank Plc (Rfb)	31/03/2023	/ /	£360,000	5.14%	A+
National Westminster Bank Plc (Rfb)	05/04/2023	05/04/2024	£1,000,000	4.65%	A+
National Westminster Bank Plc (Rfb)	29/06/2023	28/06/2024	£2,000,000	6.11%	A+
National Westminster Bank Plc (Rfb)	30/06/2023	30/11/2023	£1,000,000	5.64%	A+
National Westminster Bank Plc (Rfb)	04/07/2023	02/07/2024	£1,000,000	6.20%	A+
Standard Chartered Bank	31/03/2023	29/12/2023	£1,000,000	4.82%	A+
Standard Chartered Bank	31/03/2023	28/03/2024	£2,000,000	4.90%	A+
Standard Chartered Bank	05/04/2023	04/04/2024	£1,000,000	4.77%	A+
Standard Chartered Bank	28/07/2023	26/07/2024	£1,000,000	6.24%	A+
Cambridge Building Society	05/07/2023	05/12/2023	£1,000,000	5.50%	Unrated
Cambridge Building Society	05/07/2023	04/07/2024	£1,000,000	5.90%	Unrated
Cambridge Building Society	05/07/2023	28/02/2024	£1,000,000	5.70%	Unrated
Coventry Building Society	31/05/2023	30/05/2024	£1,000,000	5.01%	A-
Coventry Building Society	14/06/2023	13/06/2025	£1,000,000	5.26%	A-
Coventry Building Society	09/08/2023	09/08/2024	£1,000,000	5.49%	A-
Coventry Building Society	18/08/2023	16/01/2024	£1,000,000	5.46%	A-



Furness Building Society	27/04/2023	26/04/2024	£1,000,000	5.00%	Unrated
Furness Building Society	15/05/2023	15/05/2024	£1,000,000	5.00%	Unrated
Leeds Building Society	16/06/2023	16/10/2023	£1,000,000	4.77%	A-
Leeds Building Society	16/06/2023	20/11/2023	£1,000,000	4.89%	A-
Leeds Building Society	11/08/2023	09/08/2024	£2,000,000	5.69%	A-
Monmouthshire Building Society	07/08/2023	07/08/2024	£3,000,000	5.75%	Unrated
National Counties Building Society	06/04/2023	05/04/2024	£1,000,000	4.34%	Unrated
National Counties Building Society	26/05/2023	27/05/2025	£1,000,000	5.10%	Unrated
National Counties Building Society	29/06/2023	28/06/2024	£1,000,000	5.80%	Unrated
Newcastle Building Soc.	19/07/2023	19/07/2024	£2,000,000	5.85%	Unrated
Newcastle Building Soc.	01/08/2023	01/08/2024	£1,000,000	5.85%	Unrated
Nottingham Building Soc.	26/07/2023	25/07/2024	£2,000,000	6.05%	Unrated
Nottingham Building Soc.	08/08/2023	20/05/2024	£1,000,000	5.87%	Unrated
Nationwide Building Society	30/06/2023	29/02/2024	£1,000,000	5.58%	A
Nationwide Building Society	08/08/2023	08/08/2024	£3,000,000	5.55%	A
Principality Building Soc	09/06/2023	07/06/2024	£3,000,000	5.09%	BBB+
Progressive Building Society	06/04/2023	05/04/2024	£2,000,000	4.50%	Unrated
Progressive Building Society	05/07/2023	05/07/2024	£1,000,000	6.00%	Unrated
Saffron Building Society	26/05/2023	24/05/2024	£1,000,000	5.15%	Unrated
Saffron Building Society	04/07/2023	03/07/2024	£2,000,000	5.91%	Unrated
West Bromwich Building So	05/07/2023	03/01/2024	£1,000,000	5.40%	BB-
Yorkshire Building Society	22/06/2023	22/01/2024	£1,000,000	5.30%	A-
Yorkshire Building Society	26/07/2023	26/07/2024	£2,000,000	5.63%	A-
Debt Management Office	06/07/2023	12/10/2023	£2,000,000	5.20%	N/A
Debt Management Office	03/08/2023	02/02/2024	£2,000,000	5.43%	N/A
Cheshire East Council	26/09/2023	05/01/2024	£2,000,000	5.38%	AA-
Lancashire County Council	25/04/2023	24/04/2024	£1,000,000	4.70%	AA-
North Lanakshire Council	22/08/2023	19/08/2024	£5,000,000	5.75%	AA-
Blackrock	03/04/2023	/ /	£10,000	5.23%	AAA mmf
Ccla Investment Management Limited	06/02/2020	/ /	£10,000	5.20%	AAA mmf
Federated Investors (Uk) Llp	15/02/2023	/ /	£3,000,000	5.35%	AAA mmf
Invesco Liquidity Funds Plc	01/09/2023	/ /	£150,000	5.33%	AAA mmf
Lloyds Bank Plc (Rfb)	05/04/2023	07/04/2025	£2,000,000	4.10%	A+
Furness Building Society	27/04/2023	25/04/2025	£1,000,000	5.10%	Unrated
<b>TOTAL</b>			<b>£85,530,000</b>		

## 11 OTHER

### 11.1 Changes in risk appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

### 11.2 Sustainability and Ethical Policies of Counterparties

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<https://www.santandercb.co.uk/why-santander/sustainability>

[https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjinwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw\\_wcB&gclsrc=aw.ds](https://www.sc.com/en/sustainability/?gclid=Cj0KCQjw18WKBhCUARIsAFiW7Jw9h9XtzcULNMBFfdOMiAEC0Lkjinwv5QBGzPyHH7ftV08AuVuZm3hYaAmJmEALw_wcB&gclsrc=aw.ds)

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

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

## **1st Quarter Treasury Management Update Report Quarter ended 30th June 2023**

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

### **1. Economic Backdrop**

1.1 The following are relevant economic events disclosed here since they occurred during Quarter one of the 2023/24 year:

- CPI inflation fell from 10.1% to 8.7% in April, but remained at 8.7% in May, this was the highest of the G7 nations;
- Core CPI inflation rose in both April and May reaching a 31-year high of 7.1%;
- The labour market remained tight with 3 month-year average earnings growth rising from 6.1% to 6.5% in April data;
- The Bank of England Base rate has risen a further 75 bps over the quarter from 4.25% to 5.00%;
- Gilt yields, an instrument which underpins PWLB borrowing costs for councils, are nearing the peaks of the “mini budget”. Caused by higher than anticipated core inflation figures.

1.2 The UK economy has continued to weather the pressures of rising inflation and the drag of increased interest rates, showing surprising resilience. The 0.2% month on month GDP rise in April will further raise hopes that the UK economy may avoid recession this year.

### **1.3 MPC Meetings During Quarter 1**

#### **11th of May 2023 - 0.25% rise.**

At the 11th May, the Bank of England’s Monetary Policy Committee (MPC) increased the Bank Rate by 25 basis points to 4.50%.

#### **22nd of June 2023 - 0.50% rise.**

At the 22nd June meeting, the MPC moved rates up a further 50 basis points to 5.00%.

Both increases reflected a split vote – seven members voting for an increase and two for none.

### **2. Interest Rate Forecast**

2.1 The latest forecast, made on the 26th of June, sets the view that both short and long-dated interest rates will be elevated for some while. In part due to the Bank of England’s efforts to bring inflation within the economy under control, against a backdrop of a stubbornly robust economy and strong labour market.

2.2 Below are the current Bank Rate and PWLB rate forecasts. There have been a number of upward revisions between each PWLB forecast. This is representative of the continued surprise upsides in data releases and increased domestic inflationary pressures which have driven markets to demand higher returns on fixed income instruments such as Gilts which have a direct impact on the cost of PWLB borrowing for local authorities.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

### 3. Annual Investment Strategy

3.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by Full Council on 1st of March 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets the Council's investment priorities as being security of capital, liquidity, and yield in that order.

#### 3.2 Creditworthiness

There have been no changes in credit ratings for institutions which are considered significant during quarter 1. However, the shared service officers continue to monitor rating agency releases and other subjective measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

#### 3.2 Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement (TMSS) is meeting the operational requirements of the treasury management function.

#### 3.3 Investment Balances

Below is a summary of the portfolio as at 30th June 2023. The portfolio balances have decreased during the quarter, this is a strategic decision, intended to extend gaps between when borrowing is needed, shielding the Council from elevated borrowing rates. Capital expenditure in the quarter has been financed by internal borrowing where possible meaning the cash balances of the council have been utilised in lieu of borrowing.

#### Portfolio position as at 30th June 2023:

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
BLACKROCK	03/04/2023	/ /	£120,000.00	4.751	AAA mmf
Cambridge Building Society	09/07/2021	05/07/2023	£1,000,000.00	0.400	*
Cambridge Building Society	05/07/2021	05/07/2023	£2,000,000.00	0.400	*
CCLA Investment Management Limited	06/02/2020	/ /	£1,800,000.00	4.782	AAA mmf
Cheshire East Council	23/03/2023	26/09/2023	£2,000,000.00	4.300	AA-
Close Brothers Limited	05/09/2022	05/09/2023	£2,000,000.00	2.800	A-
Close Brothers Limited	08/09/2022	11/09/2023	£1,000,000.00	3.900	A-

Close Brothers Limited	30/03/2023	30/09/2024	£2,000,000.00	4.750	A-
Clydesdale Bank PLC	10/08/2022	11/08/2023	£4,000,000.00	2.820	A-
Coventry Building Society	10/08/2022	09/08/2023	£1,000,000.00	2.320	A-
Coventry Building Society	18/08/2022	18/08/2023	£1,000,000.00	2.700	A-
Coventry Building Society	31/05/2023	30/05/2024	£1,000,000.00	5.010	A-
Coventry Building Society	14/06/2023	13/06/2025	£1,000,000.00	5.260	A-
Federated Investors (UK) LLP	15/02/2023	/ /	£280,000.00	4.728	AAA mmf
Furness Building Society	27/04/2023	26/04/2024	£1,000,000.00	5.000	*
Furness Building Society	15/05/2023	15/05/2024	£1,000,000.00	5.000	*
Furness Building Society	27/04/2023	25/04/2025	£1,000,000.00	5.100	*
Goldman Sachs International Bank	02/03/2023	01/03/2024	£1,500,000.00	4.650	A+
Goldman Sachs International Bank	06/03/2023	05/03/2024	£1,000,000.00	4.685	A+
Goldman Sachs International Bank	31/03/2023	28/03/2024	£1,500,000.00	4.955	A+
Goldman Sachs International Bank	06/04/2023	05/04/2024	£1,000,000.00	4.820	A+
Handelsbanken plc	08/08/2022	08/08/2023	£3,000,000.00	2.480	AA
HSBC ESG MMF	14/04/2022	/ /	£2,460,000.00	4.703	AAA mmf
Invesco Liquidity Funds Plc	04/05/2023	/ /	£10,000.00	4.704	AAA mmf
Lancashire County Council	25/04/2023	24/04/2024	£1,000,000.00	4.700	AA-
Leeds Building Society	16/06/2023	16/10/2023	£1,000,000.00	4.770	A-
Leeds Building Society	16/06/2023	20/11/2023	£1,000,000.00	4.890	A-
Lloyds Bank Plc (RFB)	31/03/2023	/ /	£3,030,000.00	4.900	AA
Lloyds Bank Plc (RFB)	05/04/2023	07/04/2025	£2,000,000.00	4.100	AA
Monmouthshire Building Society	02/08/2021	07/08/2023	£3,000,000.00	0.350	*
National Counties Building Society	06/04/2023	05/04/2024	£1,000,000.00	4.340	*
National Counties Building Society	26/05/2023	27/05/2025	£1,000,000.00	5.100	*
National Counties Building Society	29/06/2023	28/06/2024	£1,000,000.00	5.800	*
National Westminster Bank PLC (RFB)	05/04/2023	05/04/2024	£1,000,000.00	4.650	A+
National Westminster Bank PLC (RFB)	29/06/2023	28/06/2024	£2,000,000.00	6.110	A+
National Westminster Bank PLC (RFB)	30/06/2023	30/11/2023	£1,000,000.00	5.640	A+

Nationwide Building Society	08/08/2022	08/08/2023	£3,000,000.00	2.430	*
Nationwide Building Society	30/06/2023	29/02/2024	£1,000,000.00	5.580	*
Principality Building Soc	09/06/2023	07/06/2024	£3,000,000.00	5.090	BBB+
Progressive Building Society	05/07/2022	05/07/2023	£1,000,000.00	2.400	*
Progressive Building Society	06/04/2023	05/04/2024	£2,000,000.00	4.500	*
Saffron Building Society	26/05/2023	24/05/2024	£1,000,000.00	5.150	*
Standard Chartered Bank	29/07/2022	28/07/2023	£1,000,000.00	2.790	A+
Standard Chartered Bank	31/03/2023	29/12/2023	£1,000,000.00	4.820	A+
Standard Chartered Bank	31/03/2023	28/03/2024	£2,000,000.00	4.900	A+
Standard Chartered Bank	05/04/2023	04/04/2024	£1,000,000.00	4.770	A+
Surrey Heath Borough Council	26/09/2022	26/09/2023	£3,000,000.00	2.700	AA-
West Bromwich Building So	05/07/2022	05/07/2023	£2,000,000.00	2.100	BB-
West Bromwich Building So	05/07/2022	05/07/2023	£1,000,000.00	2.100	BB-
Yorkshire Building Society	26/07/2022	26/07/2023	£3,000,000.00	2.520	A-
Yorkshire Building Society	22/06/2023	22/01/2024	£1,000,000.00	5.300	A-
TOTAL			£77,700,000.00		

### 3.4 Approved Limits

The chief financial officer can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

### 3.5 Prudential Indicators

During the quarter ended 30th June 2023, there has been no material changes or re-profiling of the capital programme which give rise to a review of prudential indicators. Members will be updated in subsequent quarterly reports if material changes occur. In the meantime, members are encouraged to review the current and projected indicators given in the above end of year treasury management review.

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## Internal Audit Annual Report 2022/23

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT  
Contact Officer: Rachel Jarvis, Assistant Director Corporate Resources (s151 officer)  
Email: [rachel.jarvis@midsussex.gov.uk](mailto:rachel.jarvis@midsussex.gov.uk)  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
28 November 2023

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### Purpose of Report

1. To present the work of Internal Audit for the 2022/23 year and provide an overall opinion. The Council is pleased to have received the second highest scoring overall.

### Recommendations

2. **The Committee is recommended to receive and endorse the report, providing any comments it feels appropriate.**
- 

### Background

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.
4. Alongside interim updates, Internal Audit provides an annual summary of its findings and an overall Audit Opinion annually. It is a requirement that Internal Audit provides this to the Committee. The Annual Report for 2022/23 is set out at Appendix A.
5. The Council's approach to Audit has changed, inviting Audit scrutiny away from routine audits recurring annually to seeking consideration and supportive input across a wide array of teams and services. As such Audit is seen as an opportunity to seek genuine input in how the Council can continuously improve services.
6. In changing supplier and its approach to Internal Audit since the previous Annual Report, the findings for this report demonstrate fewer recommendations overall and a general finding that 'some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Specifically, there are also fewer High Priority findings (and fewer Low Priority items) with most falling as moderate. Officers continue to work positively with Internal Audit to make the best use of their input as part of an ongoing approach to service improvement.

### Policy Context

7. None

### Other Options Considered

8. None.

## **Financial Implications**

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

## **Risk Management Implications**

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

## **Equalities and Customer Service Implications**

11. None.

## **Sustainability Implications**

12. None.

## **Other Material Implications**

13. None.

## **Appendices**

- Appendix A – Internal Audit Annual Report 2022-23

## **Background Papers**

None.





# Mid Sussex District Council

## Internal Audit Annual Report 2022/23

Prepared by: Mazars LLP

Date: November 2023

# Contents

- 01 Introduction
- 02 Internal Audit Opinion
- 03 Internal Audit Work Undertaken in 2022/23
- 04 Benchmarking
- 05 Performance of Internal Audit

## 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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in this report for further information about responsibilities, limitations and confidentiality.

## Appendices

A1 Outstanding High Priority Recommendations

A2 Definitions of Assurance



# 01 Introduction

Internal Audit services to Mid Sussex District Council (Council) are provided by Mazars LLP through the APEX framework with Croydon Council.

The purpose of internal audit is to provide the Council, through the Audit Committee (Committee) and the Director – Resources and Organisational Development and the Assistant Director Corporate Resources (as the Chief Finance Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness.

This Annual Report covers the internal audit work we have undertaken in respect of the Internal Audit Plan for 2022/23 (Plan) and incorporates our internal audit opinion. It forms part of the framework of assurances received by the Council and should be used to help inform the Annual Governance Statement within the Financial Statements. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance, and control.

Our professional responsibilities as internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).

## Performance against the Internal Audit Plan

The Plan was considered and approved by the Committee on 20 September 2022. The Plan was for 220 days, including 20 days for IT audits and 10 days for the Head of Internal Audit role. The audits in the Plan comprised a mixture of key financial systems, service-specific (operational and financial), corporate-wide, and IT reviews.

There were two IT audits deferred from the Plan to 2023/24 due to resource and capacity constraints in the teams that would have been involved in the fieldwork in Q4 of 2022/23. It is worth mentioning that these two audits (IT Asset Management and IT Resilience) are at fieldwork stage as of November 2023.

Except for the two IT audits, all other audits in the Plan were delivered.

A summary of the reports we have issued is included in **Section 03** of this Report.

**Appendix A2** describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls, whilst defining the classification of our recommendations.



## Acknowledgements

We are grateful to the Director – Resources and Organisational Development and the Assistant Director Corporate Resources, Council's Directors, and other staff throughout the Council as well as the Committee for the assistance provided during the year.

## Sampling methodology

As part of our auditing methodology, we use a range of sampling techniques to provide a robust basis for our audit opinions. Where possible we favour conducting whole data set testing using data integrity analysis. Where this is not possible or practical, we look to conduct sampling through use of random number generators, stratified or systematic sampling as appropriate to ensure that our findings are both representative and relevant. Sample sizes are driven by the level of assurance being provided and where not dictated as part of the audit scope are at the discretion of the internal auditor in conjunction with the Engagement Manager.

# 02 Internal Audit Opinion

## Scope of Opinion

In the capacity of the Head of Internal Audit, we provide an objective and independent assessment of the Council's governance, risk management, and control processes.

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The internal audit service can provide to the Council a reasonable assurance whether there are major weaknesses in risk management, governance, and control processes.

The matters raised in this report are only those that came to our attention during our internal audit work or from the Council's current environment and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that may be required. In arriving at our opinion, we have taken the following matters into account:

- The results of all internal audits undertaken as part of the Plan;
- The results of follow up action in respect of previous internal audits;
- Whether or not any High or Medium Priority recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the entire internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

## Our opinion

On the basis of our audit work, our opinion on the framework of governance, risk management, and control is **Moderate** in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

While there are some areas of activity where the expected levels of control have not been fully achieved, actions have been taken or are in progress in response to internal audit recommendations made.

## Reliance Placed on Third Parties

Internal audit has not placed any reliance on third parties in order to assess the controls operated by the Council. Our opinion solely relies on the work we have performed and the results of the controls testing we have undertaken.

## Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). We request updates from management to monitor the status of implementation. At the time of drafting this report, two high priority recommendations from prior years are outstanding. Relevant Officers assigned to implement outstanding recommendations were requested to provide updates to the Director – Resources and Organisational Development and the Council's Management Team. Further detail of outstanding high priority recommendations is included in **Appendix A1** of this report.

## 03 Internal Audit Work Undertaken in 2021/22

The internal audit findings in respect of each review, together with our recommendations for action and the management responses are set out in our detailed reports issued to the Service and the Summary Reports shared with Members.

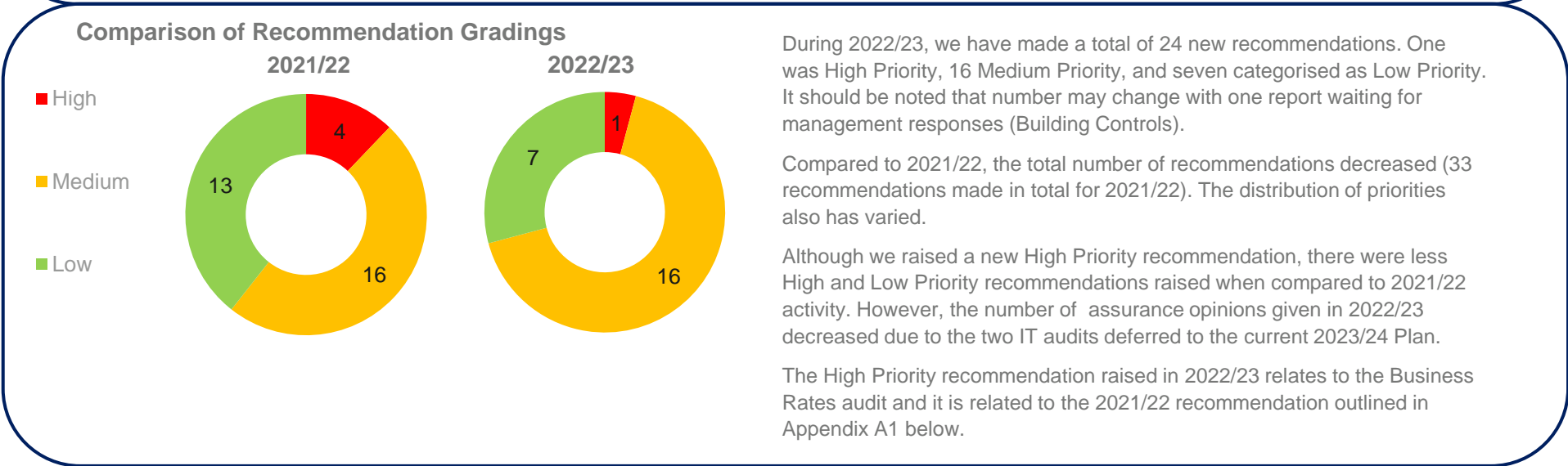
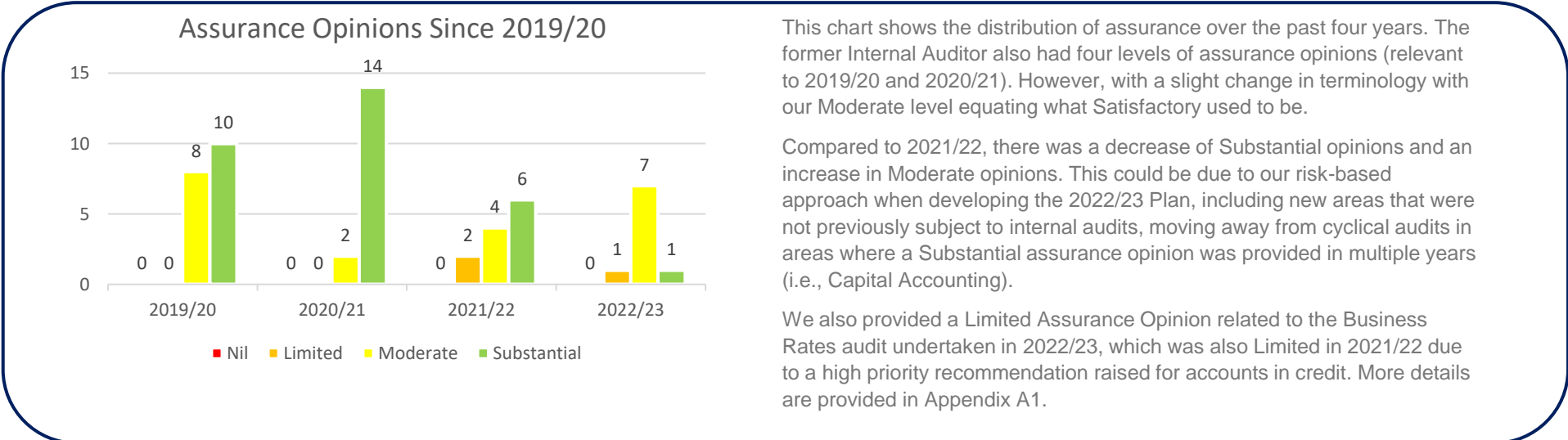
At the time of writing this report, we undertook nine audit reviews in which an assurance rating was provided, covering a number of important control systems, processes, and risks and a review of implementation of recommendations from prior years. The results of this work are summarised below :

Audit area	Assurance level	Recommendations			
		High	Medium	Low	Total
Freedom of Information (Fol) Requests	Moderate	-	3	1	4
Commercial Property Estate	Moderate	-	3	1	4
Accounts Receivable (Debtors)	Moderate	-	2	1	3
Accounts Payable (Creditors)	Moderate	-	1	-	1
Financial Management System (FMS)	Moderate	-	1	2	3
Business Rates	Limited	1	2	-	3
Building Controls	Moderate*	-	3	1	4
Disabled Facilities Grants (DFG)	Substantial	-	-	1	1
HR – Recruitment and Retention	Moderate	-	1	-	1
<b>Total</b>		<b>1</b>	<b>16</b>	<b>7</b>	<b>24</b>

\*Draft Report – Subject to Management Responses - Further detail on the implementation of recommendations is provided at **Appendix A1**.

# 04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at MSDC.



# 05 Performance of Internal Audit

We have provided some details below outlining our scorecard approach to our internal performance measures, which supports our overall annual opinion.

## Compliance with Professional Standards

We employed a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting our audit assignments.

Our work performed conforms to PSIAS which includes the Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.



## Independence and Objectivity

There have been no impairments to independence and objectivity during the year covered by this Annual Report.

## Performance Measures

Further to 01, two IT audits were deferred to 2023/24 due to the Council not being able to accommodate these reviews in Q4. Other than this, we have completed all other reviews in the agreed Plan.

Regular planned discussions on progress against the Plan have taken place with the Director for Resources and Organisational Development and the Assistant Director for Corporate Resources.



## Internal Audit Quality Assurance

In order to ensure the quality of the work we perform; we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by Managers and Partners;
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Issuance of technical guidance to inform staff and provide instruction regarding technical issues; and
- The maintenance of the firm's Internal Audit Manual.



# Appendices

- A1 Implementation of Recommendations
- A2 Definitions of Assurance





# A1 Outstanding High Priority Recommendations

Business Rates 2021/22		
Recommendation	Management Response	Timescale and Responsibility
<p>The Council should develop and document a Policy that stipulates how credit accounts should be managed, including timeframes for writing off credits and potential allocation following a transparent prioritisation and approval method.</p> <p>As a minimum, this Policy should be developed considering:</p> <ul style="list-style-type: none"> <li>- Legal implications and advice;</li> <li>- Whether funds could be kept by the Council or passed to Central Government given the dates of some;</li> <li>- Income recognition and money laundering implications;</li> <li>- Prioritisation of funds to be distributed if deemed appropriate to keep;</li> <li>- Processes for the Revenues team, including contacting taxpayers and updating accounts in Academy.</li> </ul> <p>Following the policy approval, the Revenues Team should conduct an exercise that identifies any 'live' accounts from the credits list and exhaust all avenues of contacting the taxpayers to arrange a refund.</p>	<p>We are keen to work on the accounts in credit, but the Revenues Team have worked on over the last 24 months not only the day job but a large number of complex additional COVID duties have stopped the team from doing this as quickly as we ourselves wanted.</p> <p>These additional duties are continuing with the £150 Energy Rebate.</p> <p>We will however on the credits try and action the accounts in credit recommendations in this financial year (subject to not continuing to get additional COVID work)</p> <p><b>November 2023 update:</b></p> <p>There is a policy regarding the authorisation of refunds on credit accounts. Refunds are processed by the team and are then authorised by Senior Officers for credits Under £500, Head of Revs and Bens for credits under £100,000 and AD for over £100,000. There are no restrictions that can be set within academy to restrict refund amounts but there is an audit trail which confirms the policy is adhered to. A further policy is being worked on to deal with credit appropriation.</p>	<p>Head of Revenues, Benefits and Housing Options</p> <p>Initial Timescale: March 2023</p> <p>Revised timescale: March 2024</p>

# A1 Outstanding High Priority Recommendations (continued)

Cyber Security 2021/22		
Recommendation	Management Response	Timescale and Responsibility
<p>The Council to develop cyber security incident response strategic tools with a high-level plan as part of a framework to manage and resolve cyber security incidents.</p>	<p>MSDC to identify resources and funding required to work with security partners to develop the strategic toolset required to create and test a flexible incident response strategy</p> <p>We have already purchased incident logging and monitoring tools which will be implemented before the end of the year.</p> <p><b>November 2023 update</b></p> <p>We are actively now working with an external security provider (or managed SOC) which also provides incident management services. This supplier is already providing 365 monitoring for us. Our current contract expires next year, and we're looking at tying these needs together in future procurement. This is an approach that works financially, and will provide a better, more effective outcome.</p>	<p>Assistant Director, Digital &amp; People Services</p> <p>Initial Timescale: March 2023</p> <p><b>Revised timescale:</b> December 2024</p>

# A2 Definitions of Assurance

## Assurance Gradings

We use categories to classify our assurance over the processes we examine, and these are defined as follows:

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.

## Recommendation Gradings

To assist management in using our reports, we categorise our recommendations according to their level of priority, as follows :

Priority	Description
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low	Scope for improvement in governance, risk management and control.

## Annual Opinion

For annual opinions we use the following classifications within our audit reports:

Opinion	Definition
Substantial	The framework of governance, risk management and control are 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.

# Contacts

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## **Juan Fosco**

Manager, Mazars

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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 reply 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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## **CAPITAL STRATEGY 2024/25 – 2027/28**

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](mailto:rachel.jarvis@midsussex.gov.uk)

Wards Affected: All

Key Decision: No

Report to: Audit Committee  
28 November 2023

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### **Purpose of Report**

1. The purpose of this report is to present the Capital Strategy 2024/25 to 2027/28 for approval by the Committee.

### **Recommendations**

2. **The Committee is asked to consider the draft Strategy, provide any feedback it feels is appropriate and recommend the Strategy for approval by Council at the meeting of 28<sup>th</sup> February 2024.**
- 

### **Background**

3. The Council approves a Capital Strategy each year, following best practice as set out in the CIPFA Prudential Code. The Strategy supports the Capital Programme by setting out the context, showing the level of investment and how it is financed.
4. Appendix A contains the 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 within the available resources.

### **Policy Context**

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

### **Financial Implications**

6. There are no financial implications outside of those contained within the Strategy.

### **Risk Management Implications**

7. Adoption of the Strategy does not bring forward any significant risk.

### **Equality and Customer Service Implications**

8. None

### **Other Material Implications**

9. None.

### **Sustainability Implications**

10. None.

## **Appendices**

- Appendix A – Capital Strategy to 2027/28

## **Background Papers**

11. None.

## Capital Strategy to 2027/28

### 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 as updated by subsequent amendments by Parliament, specifically, Chapter 1:

- Section 1 The power to borrow;
- Section 3 Duty to determine Affordable borrowing limit;
- Section 12 Power to invest;
- Section 15 Regard to guidance issued.

#### Professional Codes CIPFA Professional Codes

- The Prudential Code for Capital Finance 2021
  - Treasury Management In The Public Services Code of Practice 2021
  - Guidance on Minimum Revenue Provision (Fourth Edition) 2018
  - Local Government Investments 2018
- 1.4 The Strategy is completed in line with best practice as outlined within The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2023.

### 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's 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 reserves, 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 funded through specific reserves 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 ongoing basis to ensure the best long-term options are achieved.
- 4.4 The Council has historically used funds set aside in the General Reserve to fund both Capital and Revenue project expenditure. A review of the General Reserve has identified £1,200k that should be set aside in a new Earmarked Reserve, to be called the Capital Reserve. A further £500k, funded from treasury activities will be added to the new Capital Reserve to fund a contingency and the delivery of Capital Schemes. Additionally, the Estates Services annual revenue contribution (for Major Capital Renewals) will be paid to the capital reserve to support the cost of ongoing capital maintenance in the programme.

## **5.0 Whole life costing for capital schemes**

- 5.1 To ensure that the full implications on any ongoing revenue costs and income for the Council whole life costing methodology is used. This method allows members and officers to understand any potential pressures or savings for the revenue budget, when a decision to make a capital investment is made.
- 5.2 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 an overview of any feasibility works and the proper reporting of capital schemes via appropriate project documentation and will as necessary, 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 2027/28**

### **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.
- 8.4 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.
- 8.5 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 require 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 Although the Council's policy is that no borrowing will be undertaken and that all capital schemes will only be undertaken when specific funding has been identified, i.e., capital receipts, Government grants, S106 payments, contributions the Local Government Act 2003 permits local authorities to borrow to finance capital expenditure.
- 10.3 The Act allows borrowing only if the plans are affordable, prudent, and sustainable in the long term. Borrowing creates charges upon the revenue budget: the interest payable on the borrowing and; a charge each year over the term of the loan, to provide for the repayment of the loan at the end of its life (also known as Minimum Revenue Provision or MRP).
- 10.4 The Treasury Management Policy and Strategy and the Capital Programme identify 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.
- 10.5 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).
- 10.6 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.
- 10.7 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 current 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**

12.1 The proposed programme is shown at Table 1 below and Table 2 shows how the programme will be financed.

**Table 1 – Proposed Programme in £000**

	2023/24				2024/25			2025/26			2026/27			2027/28		Total
	Existing	Change at Q1	Change at Q2	Revised	Existing	Variation	Revised	Existing	Variation	Revised	Existing	Variation	Revised	Variation	Revised	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Hemsleys Meadow and Andrew's Field, Pease Pottage Masterplan	884		(884)	-	-	863	863	-	287	287	-	-	-	-	-	1,150
Mount Noddy, East Grinstead Masterplan	365	30	(395)	-	-	629	629	-	210	210	-	-	-	-	-	839
Victoria Park, Haywards Heath Masterplan - Phase 1	313	30	(343)	-	-	578	578	-	193	193	-	-	-	-	-	771
Hollands Way Play Area, East Grinstead	2		-	2	-	-	-	-	-	-	-	-	-	-	-	2
Refurbish Leylands Park Bike Track and Dirt Jumps	-		35	35	-	-	-	-	-	-	-	-	-	-	-	35
Dolphin Leisure Centre Play Area Haywards Heath	23		-	23	-	-	-	-	-	-	-	-	-	-	-	23
Hickman's Lane Pavilion Renovation	255		(195)	60	-	195	195	-	-	-	-	-	-	-	-	255
Centre for Outdoor Sport (Master Planning)	262		88	350	-	-	-	-	-	-	-	-	-	-	-	350
Centre for Outdoor Sport Phase 1	-		-	-	-	5,500	5,500	-	500	500	-	-	-	-	-	6,000
Connected Kerb	-	210	-	210	-	-	-	-	-	-	-	-	-	-	-	210
Car Park Condition Survey (RP)	35		-	35	-	-	-	-	-	-	-	-	-	-	-	35
Garden Waste Service Expansion - Bin Purchase	39		-	39	39	-	39	39	-	39	29	-	29	-	-	146
Replacement Wheelie Bin Purchase	137		-	137	-	-	-	-	-	-	-	-	-	-	-	137
<b>Commercial Services and Contracts</b>	<b>2,315</b>	<b>270</b>	<b>(1,694)</b>	<b>891</b>	<b>39</b>	<b>7,765</b>	<b>7,804</b>	<b>39</b>	<b>1,190</b>	<b>1,229</b>	<b>29</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>9,953</b>
CCTV East Court and Mount Noddy Recreation Ground in East Grinstead (RP)	29		-	29	-	-	-	-	-	-	-	-	-	-	-	29
Cherry Tree Community Hub	-	100		100	-	-	-	-	-	-	-	-	-	-	-	100
Martlets Temporary Urban Park	48	45		93	-	-	-	-	-	-	-	-	-	-	-	93
Disabled Facility Grants	1,405	220		1,625	900	-	900	900	-	900	900	-	900	900	900	5,225
<b>Communities</b>	<b>1,482</b>	<b>365</b>	<b>-</b>	<b>1,847</b>	<b>900</b>	<b>-</b>	<b>900</b>	<b>900</b>	<b>-</b>	<b>900</b>	<b>900</b>	<b>-</b>	<b>900</b>	<b>900</b>	<b>900</b>	<b>5,447</b>
Income Management Replacement System (RP)	9		-	9	-	-	-	-	-	-	-	-	-	-	-	9
Endpoint and Infrastructure Refresh (RP)	30		-	30	-	-	-	-	-	-	-	-	-	-	-	30
Fibre Channel Switch Replacement	9		-	9	-	-	-	-	-	-	-	-	-	-	-	9
Host Replacement-Production farm and DMZ	11		-	11	-	-	-	-	-	-	-	-	-	-	-	11
Mobile Device Refresh (RP)	60		-	60	-	-	-	-	-	-	-	-	-	-	-	60

Oaklands Wifi Refit	6	-	6	-	-	-	-	-	-	-	-	-	-	6
Office 365 (Phase II) (RP)	50	-	50	-	-	-	-	-	-	-	-	-	-	50
Research and Innovation Fibre Ring (RIFR)	89	-	89	-	-	-	-	-	-	-	-	-	-	89
Rural Connectivity Programme	238	-	238	-	-	-	-	-	-	-	-	-	-	238
Telephony System replacement (hardware) (RP)	194	-	194	-	-	-	-	-	-	-	-	-	-	194
Workstation replacement programme (future years)	79	-	79	50	-	50	50	-	50	50	-	50	-	229
<b>Corporate Resources &amp; Digital</b>	<b>775</b>	<b>-</b>	<b>775</b>	<b>50</b>	<b>-</b>	<b>50</b>	<b>50</b>	<b>-</b>	<b>50</b>	<b>50</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>925</b>
Bedelands Gypsy and Traveller site (RP)	489	(489)	-	-	489	489	-	-	-	-	-	-	-	489
Capital Maintenance	-	-	-	146	(71)	75	133	(58)	75	133	(58)	75	75	300
Intruder Alarm Upgrade	33	-	33	-	-	-	-	-	-	-	-	-	-	33
Oaklands Staff Room and Remodelling and Refurbishment	44	-	44	-	-	-	-	-	-	-	-	-	-	44
Oaklands Replacement Windows	2	-	2	-	-	-	-	-	-	-	-	-	-	2
<b>Estates Services &amp; Building Control</b>	<b>568</b>	<b>-</b>	<b>(489)</b>	<b>79</b>	<b>146</b>	<b>418</b>	<b>564</b>	<b>133</b>	<b>(58)</b>	<b>75</b>	<b>133</b>	<b>(58)</b>	<b>75</b>	<b>868</b>
Temporary Accommodation	2,809	-	2,809	-	-	-	-	-	-	-	-	-	-	2,809
Temporary Accommodation (Local Authority Housing Fund (LAHF)- Phase 1)	-	3,365	3,365	-	-	-	-	-	-	-	-	-	-	3,365
Temporary Accommodation (Local Authority Housing Fund (LAHF)- Phase 2)	-	2,020	2,020	-	-	-	-	-	-	-	-	-	-	2,020
<b>Temporary Accommodation</b>	<b>2,809</b>	<b>-</b>	<b>5,385</b>	<b>8,194</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,194</b>
Electric Vehicle fast charging points	11	-	11	-	-	-	-	-	-	-	-	-	-	11
About the Place Public Arts Project (RP)	86	-	86	-	-	-	-	-	-	-	-	-	-	86
Burgess Hill Place and Connectivity Programme	984	(492)	492	-	492	492	-	-	-	-	-	-	-	984
Keymer Brick & Tile Community Building improvement works (RP)	2	-	2	-	-	-	-	-	-	-	-	-	-	2
<b>Planning Policy &amp; Sustainable Economy</b>	<b>1,083</b>	<b>-</b>	<b>(492)</b>	<b>591</b>	<b>-</b>	<b>492</b>	<b>492</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,083</b>
Contingency				-	500	500	-	-	-	-	-	-	-	500
<b>Grand Total</b>	<b>9,032</b>	<b>635</b>	<b>2,710</b>	<b>12,377</b>	<b>1,135</b>	<b>9,175</b>	<b>10,310</b>	<b>1,122</b>	<b>1,132</b>	<b>2,254</b>	<b>1,112</b>	<b>(58)</b>	<b>1,054</b>	<b>26,970</b>

**Table 2 Financing of the programme in £000.**

<b>Capital Receipts</b>	<b>General Reserve</b>	<b>TA - General Reserve (New Homes Bonus)</b>	<b>Revenue Contribution – Capital Maintenance</b>	<b>S106 Received</b>	<b>S106 Agreed - not yet received</b>	<b>Grant &amp; Contributions</b>	<b>Proposed Contingency (TM receipts)</b>	<b>Total Financed</b>
3,407	1,152	3,332	302	8,540	285	9,452		<b>26,470</b>
							<b>500</b>	<b>500</b>

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## STRATEGIC RISKS 2023-24

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT  
Contact Officer: Rachel Jarvis, Assistant Director Corporate Resources (s151 officer)  
Email: [rachel.jarvis@midsussex.gov.uk](mailto:rachel.jarvis@midsussex.gov.uk)  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
28 November 2023

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### Purpose of Report

1. The report aims to present the Corporate Strategic Risk Policy Document for review and agreement of any updates and to present the Council's key strategic risks for 2023-24 identified as part of the planning process. These risks have been assessed using that Risk Policy, and have a plan, as presented for mitigation of those risks to minimise the likelihood, and impact of, their occurrence.

### Recommendations

2. **Audit Committee are recommended to:**
  - (i) **Consider and endorse the Strategic Risks for 2023-24 and management plans set out at Appendix A; and,**
  - (ii) **Consider and endorse the Mid Sussex District Council Strategic Risk Management Policy, as set out at Appendix B**

**providing any feedback it deems appropriate to Cabinet.**

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### Background

3. Council approved the Corporate Plan and Budget for 2023-24 on 1 March 2023. This Plan is the outcome of a robust service and financial planning process. As with all plans it is, however, based on best known assumptions at the time. If these assumptions prove inaccurate because circumstances change during the year, there could be a potential impact on the Council's ability to fully deliver its plans during the year or to be able to do so within budget. It is therefore prudent that the Council identifies what significant factors or events might occur and ensure it has in place appropriate arrangements for mitigating these Strategic Risks.

### Strategic Risk Management Policy

4. The Council adopted a revised Strategic Risk Management Policy in 2022. This has, in line with usual practice been reviewed to ensure it remains fit for purpose. It is also considered that the successful management of the identified risks in the previous year provides added evidence that the policy and the associated actions remain relevant.

5. The Policy is set out at Appendix B has only been updated to reflect changes in the constitution early in 2023. Whereby, and as reported in the Annual Governance Statement, the role of the Audit Committee has been aligned with the CIPFA Code of Practice for Internal Audit. In particular, this references the Audit Committee’s role in monitoring operational risk management.
6. No changes are proposed to the principles currently. A broader review of the policy and risk management process will be carried out for 2024/25.

**Risk Identification**

7. Following consideration of the Council's strategic aims as outlined in the Corporate Plan, three strategic risks have been identified in 2023-24. The risks have been identified using the Council’s Strategic Risk Management Policy which considers the likelihood of occurrence, and the level of impact on the organisation and/or the district should they occur.

**Initial Risk Score**

8. Once risks have been identified, each one is assessed according to the impact on the service if it occurred, and the probability that it will happen.
9. Risks are prioritised using a coloured coded scoring system as set out in the risk assessment matrix shown at Table 1. Risks are assessed on both inherent risk level (no controls or mitigation in place) and residual risk level (after controls and mitigation are implemented). The assessment follows a standard hierarchy where Red risks are the highest, followed by Amber, Yellow, and then Green:

**Table 1 - Risk Matrix:**

<b>Likelihood</b>	Almost Certain (5)	5	10	15	20	25
	Likely (4)	4	8	12	16	20
	Possible (3)	3	6	9	12	15
	Unlikely (2)	2	4	6	8	10
	Almost Impossible (1)	1	2	3	4	5
		Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
<b>Impact</b>						

10. The strategic risks and their mitigation plans are assigned to managers and appropriate reporting is built into individual work plans.

## **Policy Context**

11. The Council has a robust and effective approach to strategic risk management. Strategic Risk Management is an important aspect of every organisation's service and budget processes and the achievement of its corporate priorities. Its application cannot fully insulate the Council from the impact of unexpected external events, but it will ensure the Council is best placed to respond if such events occur.

## **Financial Implications**

12. There are no financial implications directly arising from this report.

## **Risk Management Implications**

13. There are no other strategic risk implications aside from those set out in the report and the actions proposed in this report will better enable the Council to identify, mitigate and manage risk. It should, also, be noted that operational risk matters, such as specific business continuity issues, are managed at Service level and escalated as necessary through the Council's Corporate Safety and Risk Management Group which meets quarterly.

## **Equalities and Customer Service Implications**

14. Where appropriate, Equality Impact Assessments are undertaken where service or policy changes are taking place.

## **Sustainability Implications**

15. None

## **Other Material Implications**

16. None

## **Appendices**

- Appendix A – Strategic Risks for 2023-24 and Management Plan
- Appendix B – Strategic Risk Management Policy

## **Background Papers**

None.

## Appendix A - Strategic Risks for 2023-24 and Management Plan

Risk 1: Excess inflation and the Cost-of-Living crisis cause budgets to overspend.

### Corporate Strategic Aims: Financial Independence

**Risk Owner: Assistant Director Corporate Resources (s151 officer)**

#### Risk Description

1. The current and ongoing excess inflation levels are causing financial instability. This has had a very serious effect on the UK economy and local authorities have been as affected as the private sector. Even as inflation slows costs will plateau as opposed to decrease.
2. The interaction of increased costs along with reduced income across a number of streams is testing the sector's resilience to the limit.
3. Mid Sussex is a strong financial performer yet is still affected by the loss of income in key income streams.
4. Inflation, particularly pay inflation, will increase expenditure over the medium term, without corresponding income.
5. Local retention of Business Rates is positive in normal times but can work against recipients when times are more uncertain.
6. The Funding Review and the reset of Business Rates have been factored into the financial outlook for 2023/24 but their timing is uncertain.
7. General uncertainty in the UK and World economy.

#### The Consequences

##### Financial

- That ultimately reserves are depleted beyond a reasonable and sustainable point.

##### Reputational

- Councils that suffer from chronic financial issues are often accused of mismanagement rather than clear funding challenges.
- Trust and confidence in the Council may be eroded.

##### Operational

- The continual need to reduce expenditure to match income would lead to reductions in service levels and/or a withdrawal of services.
- A S114 notice would see expenditure frozen.

Initial Risk Score: 16

#### Mitigations

- Active budget management supported by the preparation and distribution of budget management reports and supporting financial information.

- Robust forecasting, with external assistance as appropriate, over the medium term to show national and local financial trends.
- Targeting income maximisation wherever possible.
- Monitoring and advocating for the availability of central government support.
- Holding a robust and reasonable level of unallocated reserve to support the medium-term financial plan.
- To top up reserves when possible, continuing to direct all windfall funding to reserves in the first instance.

Revised Risk Score: 9

## Risk 2: The District Plan is not updated in line with government requirements.

### Corporate Strategic Aim: Sustainable Economic Growth

**Risk Owner: Deputy Chief Executive**

#### Risk Description

1. Council adopted its current District Plan in March 2018. The District Plan, legislation and national planning policy requires a review of the Plan to be carried out within five years (2023) and an updated District Plan prepared where it is concluded that policies need updating.
2. The process to review and update the District Plan is complex and lengthy and includes evidence gathering, specialist expert advice, assessment, and modelling, two rounds of public consultation and examination in public by an independent Planning Inspector ahead of adoption.
3. The District Plan sets out the Council's planning and spatial strategy; comprising policies to be used when determining planning applications, and sufficient site allocations to meet housing, employment and other identified needs. A planned approach to growth also ensures that the Council can secure the necessary infrastructure to support the development.
4. Whilst the Council has an adopted District Plan, some of elements of it particularly the Policies on housing need requirements will be 'out of date' by March 2023 and will therefore carry little to no weight in determining planning applications.
5. Should policies be 'out of date', and the Council is unable to demonstrate a five-year housing supply the presumption in favour of sustainable development (i.e., speculative, unplanned development) will apply.
6. Prior to adopting the current District Plan the Council did not have an up-to-date Plan for seven years and as a consequence of this and of being unable to demonstrate a five-year housing supply 3,000 new homes were built on Greenfields in the District. Despite using all legal remedies available to the Council and at a cost to the Council of £720k
7. In addition, the review of the Plan enables the Council to introduce new policies to support its aspirations regarding securing biodiversity net gain, enhancing green infrastructure and setting policies to address the causes of climate change and to increase the resilience to the effects of climate change. The Council will not be able to apply these policies in the absence of an updated Plan.
8. Central government has trailed a number of possible changes to the planning system that could have significant implications for plan-making, particularly on the number of homes which the Council must plan for. Work carried out to date may not be consistent with forthcoming legislation or national policy and would therefore need to be revisited.
9. Potential changes to legislation could impact on the amount of housing to be provided by neighbouring authorities and could therefore have consequential implications for Mid Sussex.
10. The issues around water neutrality in the area and its impact on the ability to deliver new homes, associated social infrastructure and employment in adjoining authorities continue to take time to resolve with associated impacts on Mid Sussex.

11. Developers/statutory providers/independent inspectors (appointed to examine the draft Plan) require further work and consequent further delay.

## **The consequences**

### **Political**

- The implications of not having an up-to-date plan would result in unpopular, unwanted, unplanned speculative development in the district.

### **Financial**

A specific reserve has been established to support the work on the District Plan

- Delays to the process may mean evidence base studies need to be re-commissioned to ensure they are robust and up to date.
- With no update District Plan in place, the Council will be at risk from speculative development; this may increase the number of appeals for the authority to defend, including the potential for costs to be awarded against the Council.

### **Reputational**

- The Council are at risk of reputational damage from residents and Town and Parish Council's if the District Plan is not up to date due to the risk of speculative unwanted unplanned development and development that does not meet the Council's policy aspirations.
- Potential conflict with economic development aspirations where the Council are seeking to partner with the development industry to provide high quality employment space which it may not be able to deliver without an updated local Plan.
- The Council's sustainability goals as set out in the emerging Sustainable Economy Strategy are dependent upon the successful preparation and adoption of the District Plan.

### **Operational**

- Without an up-to-date District Plan, the Council can only apply limited or no weight to any policies that are deemed 'out of date' (e.g., not in accordance with national policy or updated evidence). The Council will therefore not be able to retain control over future development, plan for necessary infrastructure, or impose stricter standards (for areas such as sustainability, climate change and biodiversity)

## **Initial Risk Score: 12**

### **Current mitigations**

- Evidence base procured, working with neighbours, assessing sites, commissioning transport modelling, in order to understand the implications of different growth scenarios.
- External advisors appointed to 'check and challenge' work.
- Legal support from retained KC to ensure the process is legally compliant.
- The Council continues to make progress over the development of a revised District Plan with adoption anticipated in 2024.

## **Revised Risk Score: 8**

## Risk 3: Operational Resilience: Cyber Security

### Corporate Strategic Aim: Effective and Efficient Services

#### Risk Owner: AD Digital and People Services

#### Risk Description

1. Threat actors targeting local government, locally hosted, or cloud hosted systems and data  
Threat actors targeting data and systems hosted by 3<sup>rd</sup> parties that MSDC works with
2. Malicious software deployed across MSDC / 3<sup>rd</sup> party systems indirectly through phishing, malicious links or similar.
3. Data breach from deviation of best practice or from a targeted social engineering/phishing-based attack.
4. Increased threat of cyber-attacks (viruses, malware, ransomware, etc.) Many sources report that targeted attacks on local authorities are on the rise, cyber-attacks globally are also increasing and are becoming more sophisticated.
5. Local authority systems becoming increasingly attractive target to attackers due to factors such as limited digital budgets, legacy systems, and large quantities of personal data.
6. More flexible access to data and systems can create complacency and mobile devices can be lost or stolen. As attacks become more sophisticated and convincing, even well-educated staff can fall victim to forms of social engineering.

#### The consequences

##### Financial

- Any loss of operational capability will have a corresponding financial impact either in relation to lost income, the cost of correcting the issue or rebuilding infrastructure.
- Loss of some critical data could produce an un-recoverable situation which would have significant financial implications on income, such as with revenues and benefits data.
- Estimated average cost of local authorities recovering from cyber-attack is £500k but has been seen as high as £10m.
- Any liability attributed to the council for the compromise of personal information could result in financial penalties and/or costs to compensate or remediate any damage caused to the data subject.

##### Reputational

- The loss of key systems relating to public facing services would likely gather negative publicity in the press and social media, especially if it resulted in poor outcomes for customers in significant need.
- Significant media coverage of cyber-attacks and an erosion of public trust in MSDC can be expected in the wake of any significant incident.

##### Operational

- Any lengthy downtime for key systems will likely create significant operational difficulties for extended periods of time. Previous incidents of downtime suggest that with some scenarios,



only a few weeks of downtime can translate to many months of remedial actions and their associated labour costs.

- Catastrophic effect on key operational capabilities if critical systems/data are destroyed and restoration capabilities are compromised or not present.

**Initial Risk Score: 20**

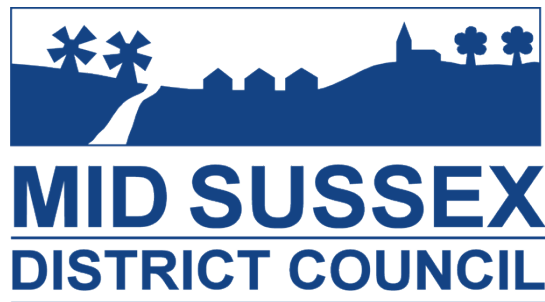
### Mitigations

- Working with security agencies and specialists to ensure we are employing best practice in all matters.
- Various cyber security protection techniques and technologies comprising software hardware and services.
- Staff education.
- Further mitigative actions are in operation but cannot be described in a document with wide or public circulation for security reasons.

**Revised Risk Score: 6**

# Strategic Risk Management Policy

## November 2023



# Strategic Risk Management Policy

## Purpose

1. This policy sets out the Council's approach to the identification and management of Strategic Risk.

## Definition

2. Strategic Risk Management is the way that the Council responds to uncertainty in the external environment. It allows the Council to:
  - Identify key strategic risks in the context of the Corporate Plan's objectives.
  - Assess risks to determine the potential likelihood and impact of each risk.
  - Determine the response that should be made to each risk.
  - Develop the necessary actions, controls, and processes to implement the chosen response to each risk.
  - Communicate its approach to risk management and the results of risk management activity.
  - Deal with each risk – either avoid, reduce, share, or accept it.
3. NB: In addition to its strategic risk management, the Council has a well-established approach to operational risk management and the principles and tools used to manage this are set out in a more detailed operational risk management strategy.

## Risk Culture

4. A strong business wide risk culture is an important aspect of strong corporate governance. Risk Culture is the shared values, attitudes and practices that characterise how the Council considers risk on a day to day basis. The Risk Culture has developed at the Council over recent years so that as an organisation it is less risk averse.
5. Our experience has been that this improved risk culture has been influenced by the following factors:
  - Awareness of risks faced by the Council
  - Understanding of the business and the relevance of risk
  - Clear ownership of risks
  - Clearly defined responsibilities for risk management activity
  - Effective monitoring and reporting of the effectiveness of risk. Whilst the Council is not risk averse, the principles contained within this policy ensure that the Council strikes the right balance in its approach to strategic risk management.

## Responsibility

6. Whilst Cabinet has overall responsibility for Risk, the Audit Committee has responsibility to provide independent assurance of the adequacy of the risk management framework

and the associated control environment. To monitor the effective development and operation of risk management and corporate governance in the Council.

## **Corporate Management and Reporting**

7. Management Team is responsible for ensuring the Council's strategic risks are actively managed throughout the year.
  
8. In addition, Management Team has the following responsibilities:
  - Implementing the strategic risk management policy.
  - Reviewing the management of strategic risk.
  - Monitoring the effectiveness of the controls developed to implement the chosen risk response.
  - Integrating risk management into the service and budget planning process.
  - Promoting a robust and proactive risk culture throughout the staff organisation.
  - Ensuring that appropriate training is put in place for appropriate officers and that it is reflected in the Member Development programme.
  
9. To gain third party assurance of the risk framework, Internal Audit will review the Strategic Risk Register and the management of those risks and will report to the Audit Committee. This then:
  
10.
  - maintains independence from the responsibilities of management.
  - communicates independent and objective assurance and advice to the Council on the adequacy and effectiveness of governance and risk management (including internal control) to support the achievement of organisational objectives, and,
  - reports impairments to independence and objectivity to the Council and will enable the implementation of safeguards as required.
  
11. There must be regular interaction between internal audit and management to ensure the work of internal audit is relevant and aligned with the strategic and operational needs of the organisation. This is achieved through the setting of the annual audit plan.

## **Review**

12. This Policy will be reviewed annually by Audit Committee and formally adopted by Cabinet.

## **Identification of Risks**

13. The Council approach to the identification of risk means:
  - Proactive risk identification, through identification of risks before they lead to harm. This includes regular Strengths, weaknesses, opportunities, and threats (SWOT) and PESTLE analysis and scenario planning.

- Reactive risk identification, through incident reporting processes. Once hazards and potential risks have been identified, they are formally assessed.

## Evaluation of Risks

14. Once risks have been identified, each one is assessed according to the potential impact on the service, and the wider Council, if it were to occur and on the probability that it will happen.
15. Risks are prioritised using a colour-coded scoring system as set out in the risk assessment matrix in Table 1. Risks are assessed on both inherent risk level (no controls or mitigation in place) and residual risk level (after controls and mitigation are implemented). Red risks are the highest, followed by Amber risks then Yellow, and then Green.
16. The Strategic Risk Register (SRR) typically but not always, includes those risks which are rated Red and Amber.

### Table 1: Impact Criteria

17. This table is used to assess the impact that a manifestation of a risk would entail. Whilst these matters are never completely discrete, the descriptions act as a guide.

Risk Level		Financial *	Service	Reputation **
5	Catastrophic	More than £1m	Total service failure	National publicity more than 3 days. Resignation of leading member or Officer
4	Major	£500k-£1m	Serious disruption to service	National public or press interest
3	Moderate	£50-£500k	Moderate disruption to service	Local public/press interest
2	Minor	£5k – 50k	Some minor impact on service	Contained within service
1	Insignificant	Less than £5k	Annoyance but does not disrupt service	Contained within business unit

\* Financial impact would include the costs of litigation, claims or fines

\*\* The Reputational impact would include consideration of fatality/injury to persons linked to the Council's activities.

18. For example, a possible fatality would merit a 5 score, with 4 meaning a major injury/permanent disablement, 3 a severe injury to an individual, 4 a minor injury to several people, and 2 being a minor injury to an individual.

## Table 2: Probability Criteria

19. This table sets out how probable is the manifestation of a risk event. A level of judgement is required and should be peer reviewed to assist with calibration.

Risk Level		Description
5	Almost certain	Expected to occur in most circumstances
4	Likely	Will likely occur in most circumstances
3	Possible	Fairly likely to occur
2	Unlikely	Could occur at some time
1	Almost Impossible	May occur only in exceptional circumstance

20. These two factors are then combined to give an overall risk score as per the matrix below.

## Table 3: Risk Matrix

Likelihood	Almost Certain (5)	5	10	15	20	25
	Likely (4)	4	8	12	16	20
	Possible (3)	3	6	9	12	15
	Unlikely (2)	2	4	6	8	10
	Almost Impossible (1)	1	2	3	4	5
		Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
<b>Impact</b>						

21. Each risk is then managed via a Risk Management Plan, which could include the following Risk Responses:

### Avoid

22. As the name implies, stopping a particular action or opting to not start it at all is one option for responding to risk. When choosing the avoidance option, we are closing off

any possibility that the risk will pose a threat to the Council, but this is not always practical or possible.

23. Exercising the avoidance option too much can result in operation well below risk appetite. However, if there is absolutely zero tolerance for the risk in question, then avoidance is the proper risk response strategy.

### **Reduce**

24. Reduction or mitigation is to take action to reduce the likelihood or impact of a loss. If the risk in question currently sits slightly higher than the appetite, reduction is a reasonable strategy to employ to bring it within tolerance levels.
25. This is often the common approach, yet a very careful assessment is needed that reduction actions are working or will actually work in the future.

### **Transfer**

26. When doing so, we do not eliminate or reduce but rather delegate it to a third-party. The goal with risk transfer is to ultimately reduce the impact should something materialise. As an organisation, we are willing to take a gamble on the risk occurring.

### **Accept**

27. The last option is to simply accept the risk as-is and do nothing. This risk response strategy is often used for risks with a low probability of occurring or that would have a low impact if they did happen. It is commonplace to have budget reserves set aside to deal with situations like this. Emerging risks, or ones that may pose some sort of threat in the distant future, are also ones commonly placed in the “accept” category.

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## AUDIT COMMITTEE WORK PROGRAMME 2023/24

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT  
Contact Officer: Rachel Jarvis, Assistant Director of Corporate Resources  
Email: [rachel.jarvis@midsussex.gov.uk](mailto:rachel.jarvis@midsussex.gov.uk)  
Wards Affected: N/A  
Key Decision: No  
Report to: Audit Committee  
28 November 2023

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### Purpose of Report

The purpose of the report is to provide Members of the Audit Committee with a proposed programme of work in line with its responsibilities for the remainder of the Municipal Year 2023/24.

### Recommendations

- 1. The Committee is recommended to note the contents of the report and approve the Work Programme as set out in paragraph 7 of this report.**
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### Background

2. Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
3. The purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place. Providing independent scrutiny of the authority's financial performance to help guard against adverse consequences.
4. Audit Committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
5. It is usual practice for the Audit Committee to agree its Work Programme at the first meeting of a new Council and review the programme at each subsequent meeting to allow for the Scrutiny of emerging issues during the year.

### Policy Context

6. The committee will carry out all the functions required of an Audit Committee in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2003 (and as amended from time to time) and is a committee that reports to council. The Work Programme
7. The Audit Committee Work Programme is set out below:

Meeting Date	Item
19 <sup>th</sup> March 2024	Annual Governance Statement External Audit Plan Internal Audit Update Review of Treasury Management Activity Q3

### Financial Implications

8. There are no financial implications affecting this report.

### Risk Management Implications

9. None.

### Equality and Customer Service Implications

10. There are no specific equality or diversity issues arising from this report.

### Legal Implications

11. The Accounts and Audit Regulations 2015 requires the Council to 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.

### Sustainability Implications

12. There are no specific climate change or health issues arising from this report.

### Background Papers

- None.