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AUDIT COMMITTEE

Date: Tuesday, 6 February 2024

Time: 6.00pm,

Location: Council Chamber, Daneshill House, Danestrete, Stevenage

Contact: Ian Gourlay (01438) 242703

committees@stevenage.gov.uk

Members: Councillors: M McKay (Chair), C Veres (Vice-Chair), S Booth, L Briscoe, R Broom, N Chowdhury, A Farquharson, G Lawrence CC, Baroness Taylor of Stevenage, OBE CC and T Wren.
Mr Syed Uddin (Independent Co-opted Non-voting Member).

AGENDA

PART I

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES - 8 NOVEMBER 2023

To approve as a correct record the Minutes of the meeting of the Audit Committee held on 8 November 2023.

3 – 8

3. EXTERNAL AUDIT PLAN 2023/24

To consider the External Audit Plan for 2023/24 produced by Azets.

9 – 30

4. INTERNAL AUDIT PLAN 2023/24 - PROGRESS REPORT

To consider progress in respect of the Shared Internal Audit Service (SIAS) Internal Audit Plan 2023/24.

31 – 42

5. ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL CODE INDICATORS 2024/25

To consider the Annual Treasury Management Strategy including Prudential Code Indicators 2024/25.

43 – 78

6. URGENT PART I BUSINESS

To consider any Part I business accepted by the Chair as urgent.

7. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.
2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

8. PART II MINUTES - AUDIT COMMITTEE - 8 NOVEMBER 2023

To approve as a correct record the Part II Minutes of the meeting of the Audit Committee held on 8 November 2023.
Pages 79 - 82

9. URGENT PART II BUSINESS

To consider any Part II business accepted by the Chair as urgent.

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Wednesday, 8 November 2023

Time: 6.00pm

Place: Council Chamber, Daneshill House, Danestrete, Stevenage

Present: Councillors: Maureen McKay (Chair), Carolina Veres (Vice-Chair), Stephen Booth, Lloyd Briscoe, Rob Broom, Nazmin Chowdhury, Alex Farquharson, Graham Lawrence CC and Tom Wren.
Mr Syed Uddin (Independent Co-opted Non-voting Member).

Start / End Start Time: 6.00pm
Time: End Time: 7.20pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies for absence.

There were no declarations of interest.

2 MINUTES - 6 SEPTEMBER 2023

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 6 September 2023 be approved as a correct record and signed by the Chair.

3 SHARED ANTI-FRAUD SERVICE (SAFS) - PROGRESS WITH DELIVERY OF 2023/24 ANTI-FRAUD PLAN

The Shared Anti-Fraud Service (SAFS) Manager presented a report in respect of progress with delivery of the 2023/24 Anti-Fraud Plan.

In relation to Appendix B to the report (Progress against 2023/24 Key Performance Indicators [KPIs]), the SAFS Manager advised that a number of these were at “yellow” status and required further work, namely:

- KPI 2A – Number of Counter Fraud days – only 31% of days had been recorded in Quarters 1 and 2, due to changes in the Case Management System and staff adjusting to the time recording requirements of the new System. It should be close to target at the end of Quarter 4;
- KPI 3A – Urgent/High risk cases picked up within 1 day – this was occurring, although this was not yet recognised by the Case Management System (work was taking place to rectify this);
- KPI 4D – Training events – SAFS was looking to deliver training for members and Officers (including e-learning modules) over the coming months; and
- KPI 6 – Use of National Fraud Initiative (NFI) data – there was a high volume of data outputs/matches which were in the process of being reviewed. It was

planned to complete this work by the end of the current Financial Year.

With regard to the report, the SAFS Manager stated that, between April and September 2023, SAFS received 101 'referrals' or allegations of fraud affecting Council services. Allegations received had increased slightly compared to the same period in 2022/23. Of the 101 referrals received, 48 came from members of the public and 53 from Council staff. 14 cases of 'tenancy fraud' were currently being investigated within the Council's boundaries with the intention that, once recovered, these properties would be made available to families from the Council's housing register, including those in temporary accommodation.

The Committee was informed that SAFS had worked with the 'District Revenues Manager Group' to develop a framework contract for all district councils in Hertfordshire to conduct bulk reviews of council tax discounts and exemptions, improving collection and preventing fraud. SAFS was working with Council officers to review the outcome from the National Fraud Initiative (NFI) by providing resources and support to deal with reports/matches received in February 2023. To date of 1,310 matches, 464 high priority matches had been reviewed, 50 discrepancies and 12 frauds identified and savings of £223,000 recorded.

The SAFS Manager stated that the Council subscribed to the Hertfordshire FraudHub. This project operated using the same legal framework as main NFI Hub, but allowed data to be matched more frequently helping to prevent fraud or detecting it sooner. In Quarters 1 & 2 more than 4,400 matches had been reported, of which 856 had been reviewed.

The SAFS Manager advised that SAFS had provided a number of reports to the Council's senior management about fraud risks identified from investigations, both at the Council and other SAFS Partners, with recommendations on how the Council could better manage/mitigate these risks in future. Where recommendations related directly to Council services, SAFS had shared reports with Shared Internal Audit Services (SIAS) to help inform future audit planning.

In response to a number of Members' questions, the SAFS Manager commented as follows:

- SAFS staff worked in a variety of locations across the county, and worked closely with each council's Revenues and Benefits Service. SAFS representatives also attended each council's Corporate Governance Group meetings. It was recognised that SAFS officers could not cover the whole of the county at all times, which was why it was important that officers from other departments were educated to identify suspected fraudulent that, if necessary, could be reported back to SAFS;
- In terms of the high volume work relating to the NFI Hub, the highest risk data matches were prioritised and investigated first. The SAFS Manager was satisfied that the resource level within the Team was adequate for the amount of workload generated through the NFI Hub;
- There could be circumstances when the Council could take direct action against fraudsters rather than go through SAFS, which was one reason why the education of Council staff in anti-fraud matters was important; and
- Regarding KPI 2A, it was hoped that the issues caused by the new Case

Management system would be rectified to enable the target number of SAFS days delivered by 31 March 2024 to be met. However, regardless of whether or not the target number of days would be delivered, the Council would not be entitled to a refund of costs from SAFS.

It was **RESOLVED** that the work of the Council and the Shared Anti-Fraud Service in delivering the 2023/24 Anti-Fraud Plan be noted.

4 REGULATION OF INVESTIGATORY POWERS ACT (RIPA) POLICY

The Records Governance Manager presented a report in respect of the Council's updated Regulation of Investigatory Powers Act (RIPA) Policy.

The Records Governance Manager advised that RIPA regulated the use of certain surveillance powers by public authorities, including:

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

The Records Governance Manager explained that the Council rarely used these powers, and had last done so in 2021. She added that the Home Office published national Codes of Practice on the use of RIPA powers by public authorities. External Inspections were carried out from time-to-time by the Investigatory Powers Commissioner's Office (IPCO), so it was important that all documentation was properly completed and (where relevant) authorised to confirm that any directed surveillance was carried out on a lawful basis. The last inspection for SBC was held in July 2023.

The Records Governance Manager commented that the Council was required to have arrangements and a RIPA Policy in place. The current Policy was approved in 2017/18.

In relation to Communications data, the Records Governance Manager stated that all such applications must be processed through the National Anti-Fraud Network (NAFN), who would consider the application prior to submitting this for approval to the Office for Communications Data Authorisations (OCDA). All applications must be approved before Communications Data was acquired. All SBC applications submitted to NAFN would be overseen by the Council's Borough Solicitor, who acted as the Council's single point of contact for such applications.

The Committee noted that RIPA training had been provided to Council authorising officers in 2021, and that further officer training was in the process of being arranged for 2023/24.

In reply to a Member's question concerning the potential leaking of information, the Records Governance Manager advised that the NAFN had a duty of confidentiality and had accountability for sign-off of Communications data surveillance, and that

any perpetrators of leaked information would be brought to account.

It was **RESOLVED**:

1. That the content of the report be noted.
2. That the updated Regulation of Investigatory Powers Act (RIPA) Policy, as attached at Appendix A to the report, be approved.

5 PROGRESS OF CORPORATE GOVERNANCE ACTIONS

The Corporate Performance and Improvement Officer presented a report informing Members of progress with regard to the actions to strengthen the Council's corporate governance arrangements, as identified in the Council's 2022/23 Annual Governance Statement reported to the Committee on 6 June 2023.

The Corporate Performance and Improvement Officer advised that progress on the 12 high level actions, including mitigation measures, was set out in Appendix A to the report. The full year status report on those actions would be reported to the Committee in June 2024.

In response to some questions from the Committee Chair, the Corporate Performance and Improvement Officer stated:

- There were still some challenging areas where posts were proving hard to fill, including Building Surveyors. Such posts were often in competition with those in the Private Sector. Although the Human Resources Team was helping with advertising vacant posts differently, at the current time a number of the vacancies were filled by interim/agency staff; and
- Work to comply with the requirements of the Building and Fire Safety Acts was on target, with remedial works expected to commence in April 2024.

It was **RESOLVED** that the progress to date of actions to strengthen the Council's corporate governance arrangements, as identified in the Council's 2022/23 Annual Governance Statement reported to the Committee on 6 June 2023, be noted.

6 MID YEAR TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS 2023/24

The Assistant Director (Finance) presented a report in respect of the 2023/24 Mid Year Treasury Management review, including the 2023/24 prudential and treasury indicators.

The Assistant Director (Finance) advised that there had been no changes to the Strategy approved by the Council in February 2023. Projected balances were shown as £38Million at year end. As at 30 September 2023, there had been borrowing of £259Million (largely for Housing Revenue Account self-financing). Further borrowing of £24Million over the coming months would result in a total of £283Million by the end of March 2024, well within operational boundaries.

In terms of investments, the Assistant Director (Finance) stated that the Council currently had £48.5Million of these, earning an average interest rate of 5.27%. There had been no breaches of any of the indicators in the Strategy during the first 6 months of 2023/24.

In respect of a Member's questions, the Assistant Director (Finance) replied as follows:

- The term "netted off" in the second bullet point of Paragraph 4.2.4 of the report referred to the net financial impact (as opposed the gross financial impact) of the budget increases; and
- In Paragraph 4.2.5 of the report, the slippage in Housing Development budgets could be due to a variety of reasons, such as delays in procurement. He agreed to provide the Member with details of the reasons for the slippage, and stated that further information would be provided in the Quarter 2 2023/24 Capital Monitoring report being submitted to the Executive meeting on 15 November 2023.

It was **RESOLVED** that the 2023/24 Mid Year Treasury Management Review and Prudential Indicators report be recommended to Council for approval.

7 URGENT PART I BUSINESS

None.

8 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED** that:

1. Under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in Paragraphs 1 - 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to information) (Variation) Order 2006.
2. Members considered the reasons for the following reports being in Part II and determined that the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

9 PART II MINUTES - AUDIT COMMITTEE - 6 SEPTEMBER 2023

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 6 September 2023 be approved as a correct record and signed by the Chair.

10 SBC INFORMATION COMMUNICATION TECHNOLOGY (ICT) RESILIENCE

The Assistant Director (Strategic ICT Partnership) gave a presentation on ICT Resilience at the Council.

The Assistant Director (Strategic ICT Partnership) answered a number of Members'

questions regarding the presentation.

It was **RESOLVED** that the presentation on ICT Resilience be noted.

11 STRATEGIC RISK REGISTER

The Corporate Performance and Improvement Officer presented a report providing the Quarter 2 2023/24 (July to September 2023) update in respect of the Strategic Risk Register.

The Corporate Performance and Improvement Officer, assisted by the Assistant Director Finance, responded to a number of questions raised by Members on the report.

It was **RESOLVED**:

1. That the latest Strategic Risk Register, as set out in the report, be noted.
2. That the Risk Management Training scheduled for 30 January 2024 take place virtually via Teams.

12 URGENT PART II BUSINESS

None.

CHAIR



Stevenage Borough Council

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External audit plan

Year ended 31 March 2024

December 2023



Agenda Item 3

Your key team members

Paul Grady

Key Audit Partner

Paul.grady@azets.co.uk

Martha Charima

Manager

Martha.Charima@azets.co.uk

Ava Campbell

In-Charge auditor

Ava.Campbell@azets.co.uk

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Introduction

Adding value through the audit

All our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Stevenage Borough Council ('the Council') for the year ended 31 March 2024 for those charged with governance.

The core elements of our work include:

- An audit of the 2023/24 Statement of Accounts for the Council and its Group; and
- An assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditor we are responsible for performing an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council's and its Group's financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the 'CIPFA Code').

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued..... 3

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities (*....continued*)

We will issue our Audit Findings Report and an Auditors Annual Report to the Audit Committee setting out the findings from our work.

Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making an application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts.

On completion of our audit work, we will issue an Audit Findings Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the [Terms of Appointment](#) and [Statement of Responsibilities](#) issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council and its Group, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;

- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. **The basis for our assessment of materiality for the year is set out in Appendix I.**

Any identified errors greater than:

£100k

will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset; and
- The audit of investment or property valuations, should the need arise during the course of the audit.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the key financial systems.

Audit scope and general approach

Significant changes in the financial reporting framework

There have been no significant changes in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the 'CIPFA Code'). As permitted by the CIPFA Code the council has chosen to defer the implementation of IFRS 16 'Leases' until 2024/25.

Significant changes in the Council's (and Group's) functions or activities

There have been no significant changes to the functions and activities of the Council or its group structure. We have not been made aware of any significant changes in the functions or activities of the other components in the Council's group.

Our group audit scope and risk assessment is set out in Appendix II.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council [and group] is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council [and group]'s ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control. During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2023/24. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO have not yet confirmed which entities will be sampled components.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements once instructions have been issued.

Auditor reporting delays for previous periods and the impact on our audit

Although we are planning to complete your audit for the year ended 31 March 2024 in line with the timetable set out ON PAGE 17, so that we can report our initial findings to your Audit Committee in November 2024, please note that we will not be able to fully complete our audit, issue our auditor's report and certify the closure of the audit until your predecessor auditor has completed their audit for the year ended 31 March 2023. Once the 2023 audit has been completed we will need to review the predecessor auditor's audit file to gain assurance over your opening balances as at 1 April 2023, and consider the impact on our audit of any modifications to their auditor's report.

Further, once the 2023 audit, and any earlier years, has been completed, we will revisit our planning procedures and audit plan to assess whether any additional procedures are required over and above those we have identified in this audit plan. Should additional procedures or changes to the plan be required, we will report these to you. The cost of additional work to revisit planning upon completion of the prior year audits will also be reported to you.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below and overleaf summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
<p>Management override of controls</p> <p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness any indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Prior year opinion on the financial statements</p> <p>As at the date of writing, you have not been able to obtain an unmodified opinion from your predecessor auditor for the 2022/23 financial year. In addition, the opinions for the financial years 2021/22 and 2020/21 have not yet been issued.</p> <p>There is therefore a risk that issues not yet identified in the open audit years arise in the completion of those audits which may impact the current (2023/24) audit year.</p> <p>There is a further risk that, in the event an ‘audit backstop’ is implemented for 31 March 2024, the prior year period opinions may be qualified by a ‘limitation of scope’ or disclaimed in full.</p> <p>In this eventuality:</p> <ul style="list-style-type: none"> • there may be limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g. defined benefit pensions valuations and property, plant and equipment valuations, amongst others). • significant transactions, accounting treatment and management judgements may not have been subject to audit for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant new schemes (such as major capital initiatives), changes to group structures or other significant accounting treatments which came into effect during the qualified or disclaimed period, going back to 2019/20. <p>The potential absence of prior year assurance raises a significant risk of material misstatement at the financial statements level that may require additional audit procedures.</p> <p>Risk of material misstatement: High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Considering the findings and outcomes of unfinished prior year audits and their impact on the 2023/24 audit; • Considering the impact on our work of the impact of qualified or disclaimed audit opinions, particularly regarding opening balances and ‘unaudited’ transactions and management judgements made in the previous years which continue into 2023/24; and • Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
<p>Fraud in revenue recognition and expenditure (rebutted)</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240.</p> <p>Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted on all income streams because:</p> <ul style="list-style-type: none"> • there is little opportunity available to manipulate revenue recognition; • there is limited incentives to manipulate revenue recognition • the Council’s existing income transactions do not provide a significant opportunity to manipulate income between years in any meaningful way or to adopt aggressive recognition policies. <p>We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out above.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue and expenditure recognition: Low 	<p>Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> • Documenting our understanding of the Council’s systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements • Evaluating the Council’s accounting policies for recognition of income and expenditure and compliance with the CIPFA Code. • Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised for the year.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Valuation of other land and buildings and investment property (key accounting estimate) Council and group</p> <p>The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at each 1 April and it undertakes a full revaluation of its investment property annually.</p> <p>Management engages Wilks Head and Eve for their investment property and land and buildings valuations whereas Savills values their HRA housing stock.</p> <p>The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings and investment property as a significant risk.</p> <p>We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements falls outside of our expectations.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Land and buildings and investment property (valuation): Very High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Consulting with management to update our understanding on the approach taken by the management in its valuation of Council land and buildings and investment properties, including review and challenge of the methodology that the client uses. <p>Reviewing;</p> <ul style="list-style-type: none"> • The scope and terms of work with the asset management team • How management use the asset management team report to value land and buildings and investment properties in the financial statements • The valuation approach and assessment in respect of capital additions within the year to ensure we understand how valuations have been updated and amended as the assets have been brought into use • Consider engaging Azets valuation specialists to assist the audit team on a sample of assets, based on our assessment of the asset valuations subject to a higher degree of risk for their valuations as at 31 March 2024. • Contacting the asset management team to obtain information on the methodology and their procedures to ensure objectivity and quality, including compliance with professional standards • Where material, we will also test a sample of valuation movements to gain assurance that the accounting treatment is appropriate, and we will also consider evidence of regional valuation trends.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Valuation of the defined pension fund net liability/asset (key accounting estimate) Council and group</p> <p>An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 'Employee Benefits', and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Defined pension fund net liability/asset (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating managements processes for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors' expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council's share of the investment valuations in the audited pension fund accounts' and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Other risks of material misstatement

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

Identified risk	Planned audit procedures
<p>Other risk 1:</p> <p>The Council has entered a complex and financially significant income strip scheme. This requires the recognition of an asset, a significant finance lease liability and management judgement on accounting for various transactions related to this scheme.</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none">• Reviewing management’s accounting treatment for this transaction, including revenue flows in year and the value of long and short-term assets and liabilities associated with the scheme• Assessing management’s accounting treatment against the requirements of the CIPFA Code and International Financial Reporting Standards.

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Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

Value for Money arrangements

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).

NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (“AGN 03”) was updated and issued on 18 January 2023 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

Financial sustainability	How the body plans and manages its resources to ensure it can continue to deliver its services
Governance	How the body ensures that it makes informed decisions and properly manages its risks
Improving economy, efficiency and effectiveness	How the body uses information about its costs and performance to improve the way it manages and delivers its services

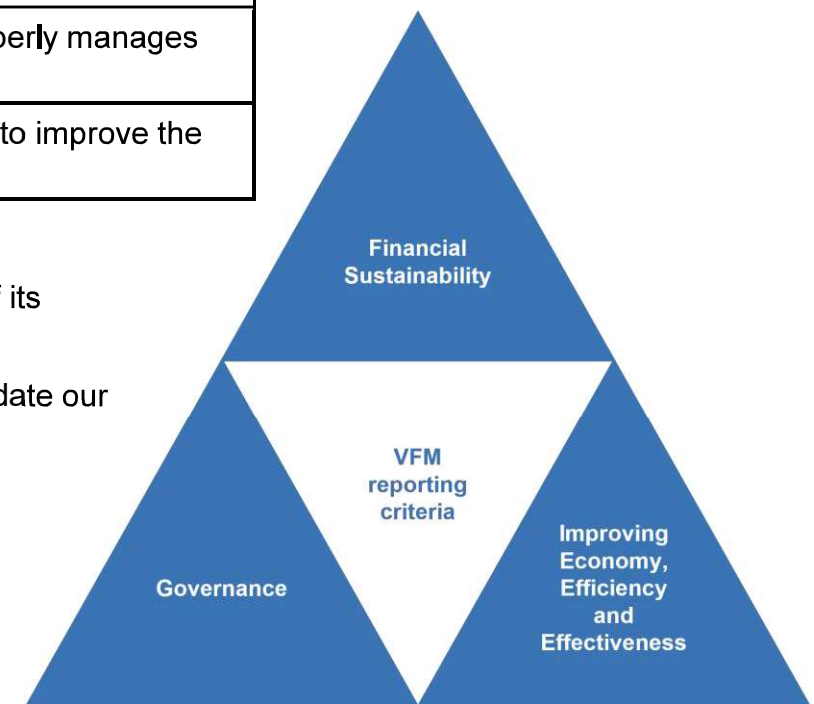
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As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council’s arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money arrangements

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

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Criteria	Risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	None identified	Whilst we have not identified, at this stage, any risks of significant weakness, we will consider as part of our review the arrangements in place to monitor and mitigate the commercial, economic and other risks relating to the Council's significant income strip scheme.
Governance	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures
Improving economy, efficiency and effectiveness	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Paul Grady	Paul.grady@azets.co.uk
Engagement Manager	Martha Charima	Martha.Charima@azets.co.uk
In-charge auditor	Ava Campbell	Ava.Campbell@azets.co.uk

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Please note that we will be unable to complete our 2023/24 audit until your audits for all previous financial years have been completed by your predecessor auditors and auditor's reports covering both the financial statements audit and value for money work have been issued. The National Audit Office continues to explore ways to escalate the timely completion of all outstanding local government audits.

Timetable

Event	Date
Planning and risk assessment	Oct – Nov 2023
Reporting of plan to Audit Committee	Jan- Mar 2024
Interim audit	Mar 2024
Year end audit	Sep – Nov 2024
Reporting of Audit Findings (ISA260)	Nov 2024
Auditor's Annual Report (AAR)	Nov 2024
Target date of approval of accounts	Nov 2024
Accounts publication deadline (as specified in the Accounts and Audit Regulations 2015)	TBC (likely 30 November 2024)

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be brought to your attention

Other services

We have detailed in the table below any other services provided to the Council (and the Group), the threats to our independence these present and the safeguards we have put in place to mitigate these threats.

Service	Provided to	Fee	Threats identified and safeguards to mitigate threats to independence
Audit related: Certification of Housing Benefit Assurance Process (HBAP) claim (2023/24)	Council	£28,000 plus per diem rate for additional work required	<p>Self-interest: Given this is likely to be a recurring fee, we consider a threat present. However, the fee is not significant to Azets Audit Services or Stevenage Borough Council. The fee is fixed (apart from an additional £2,000 for each additional 40+ workbook) and not contingent in nature.</p> <p>Self-review: Whilst housing benefit revenue and expenditure streams are within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by the management.</p> <p>Management: As above, the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report.</p> <p>We therefore consider these risks sufficiently mitigated.</p>

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows:

Audit fee	2023/24 £
Base fee for the audit of the Council (and Group's) financial statements (as set out in the fee scales issued by PSAA)	185,235
New auditing standards: ISA315 and ISA240	27,785
Accounting for income strip	18,000
Initial audit fee for Stevenage Borough Council	231,020
Additional work arising from prior year audit outcomes	TBC
Proposed audit fee for Stevenage Borough Council	TBC

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This fee is estimated based on our understanding at this point in time and may be subject to change. Our planned fee is on the basis that our expectations set out on page 17 are met and your group structure is unchanged.

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

Our policy is to raise fees to account at appropriate stages of the audit such as during the audit planning, the interim visit, the final audit and once the financial statements have been signed.

The approximate total fees charged to the Council and group for the provision of services in 2023/24 is as follows:

Audit fee	2023/24 £
Audit of the Council (as above, excluding any additional work arising from prior year audit completion)	231,020
Certification of the HBAP Claim (excluding the per diem rate for additional workbooks)	28,000
Total fees for the Group (excluding any additional work arising from prior year audit completion, and any additional work on the HBAP claim)	259,020

Appendix I: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and group and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Page 28 Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows:

	Group £'000	Council £'000	Explanation
Overall materiality for the financial statements	2,000	1,900	2% of gross revenue expenditure based on the draft financial statements as at 31 March 2022. This will be reassessed upon receipt of the draft accounts. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	1,300	1,235	65% of materiality. Audit work will be performed to capture individual errors at this level
Trivial threshold	100	95	5% of overall materiality for the Council and group. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

Appendix II: Group audit scope and risk assessment

As Group auditor under ISA (UK) 600 (Revised November 2019) we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Please note the below scope is indicative subject to our detailed review of the Council’s proposed accounting treatment for the group structure.

Group audit scope

The Group consists of the following entities:

Component	Significant?	Level of response required	Planned audit approach
Stevenage Borough Council	Yes	Comprehensive	Full scope statutory audit
Queensway Properties (Stevenage) LLP	No	Analytical	We will carry out analytical procedures at a group level
Marshgate Plc	No	Analytical	We will carry out analytical procedures at a group level

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Comprehensive The component is of such significance to the Group as a whole that an audit of the components financial statements is required for group reporting purposes.

Targeted The component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit.

Analytical The component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

Risks at the component-level

The risks identified at the Council are set out in this external audit plan. There are no other risks identified in any of the other components above in respect of the Group audit.

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposes.

Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a company-by-company basis.

Involvement in the work of component auditors

The nature, timing and extent of our involvement in the work of component auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of the audit team.

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Stevenage Borough Council
Audit Committee

6 February 2024
Shared Internal Audit Service –
Progress Report

Recommendations

Members are recommended to:

- a) Note the Internal Audit Progress Report
- b) Approve the Internal Audit Plan Changes
- c) Note the Status of Critical and High Priority Recommendations

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Internal Audit Plan and Key Findings
 - 2.4 Internal Audit Plan Changes
 - 2.5 Critical and High Priority Recommendations
 - 2.7 Performance Management

Appendices:

- A Progress against the 2023/24 Internal Audit Plan
- B Implementation Status of Critical and High Priority Recommendations
- C Internal Audit Plan Items (April 2023 to March 2024) - Indicative start dates agreed with management
- D Assurance Definitions / Priority Levels

1 Introduction and Background

Purpose of Report

- 1.1 To provide Members with:
- The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2023/24 Internal Audit Plan to 19 January 2024.
 - The findings for the period 19 August 2023 to 19 January 2024.
 - Details of any changes required to the approved Internal Audit Plan.
 - The implementation status of previously agreed audit recommendations.
 - An update on performance management information to 19 January 2024.

Background

- 1.2 Internal Audit's Annual Plan for 2023/24 was approved by the Audit Committee at its meeting on 27 March 2023. The Audit Committee receive periodic updates against the Internal Audit Plan. This is the second update report for 2023/24.
- 1.3 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also include details of changes to the agreed Annual Internal Audit Plan.

2 Audit Plan Update

Delivery of Internal Audit Plan and Key Audit Findings

- 2.1 As of 19 January 2024, 64% of the 2023/24 Internal Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).
- 2.2 The following final reports have been issued since 19 August 2023:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Performance Indicators	Sept 2023	Substantial	None
IT Malicious Software (2022/23)	Sept 2023	Reasonable	Four Medium Priority
S106 Spend Arrangements	Sept 2023	Substantial	None
Local Land Charges	Oct 2023	Substantial	None
Housing Benefits	Dec 2023	Substantial	None
Council Tax	Jan 2024	Substantial	Two Low Priority

See definitions for the above assurance levels and recommendation priorities at Appendix D.

- 2.3 The table below summarises the position regarding delivery of the 2023/24 approved projects to 19 January 2024. Appendix A provides a status update on each individual project within the 2023/24 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	9	31%
Draft Report Issued	6	21%
In Fieldwork/Quality Review	6	21%
In Planning/Terms of Reference Issued	3	10%
Allocated	3	10%
Not Yet Allocated	0	0%
Cancelled/Deferred	2	7%
Total	29	100%

Internal Audit Plan Changes

- 2.4 The planned internal audit of Bed and Breakfast Accommodation has been cancelled. This is because there have been very few cases in the year to date. The unused audit days have been returned to contingency and may be reallocated to other work in progress, or any emerging issues during the remainder of the financial year.

Critical and High Priority Recommendations

- 2.5 Members will be aware that a Final Audit Report is issued when it has been agreed (“signed off”) by management; this includes an agreement to implement the recommendations that have been made.
- 2.6 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations. No new High Priority recommendations have been added to the schedule since the last Progress Report.

Performance Management

- 2.7 The 2023/24 annual performance indicators were approved at the SIAS Board meeting in March 2023.
- 2.8 The actual performance for Stevenage Borough Council against the targets that can be monitored in year is set out in the table overleaf:

Performance Indicator	Performance Target for 31 March 2024	Profiled Performance 19 Jan 2024	Actual Performance 19 Jan 2024	Notes
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	68%	64%	177.5 days delivered out of the current 276 days planned
2. Planned Projects * – percentage of actual completed projects to draft report stage against planned completed projects by 31 st March 2024	90%	59%	56%	15 projects to draft or final report from the 27 planned
3. Planned Projects – percentage of actual completed projects to final report stage against planned completed projects by the production of the Annual Report	100%	N/A	33%	New Indicator – first measurement will be May 2024 (Currently 9/27 delivered to final report)
4. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%	Based on the results of the 4 completed questionnaire received (from the 8 issued)
5. Number of High and Critical Priority Audit Recommendations agreed as a percentage	95%	95%	100%	1 High Priority recommendation made and agreed

* Based on Audit Plan 'deliverables' at draft, final and audit closed stage and items carried forward from 2022/23 that were not at draft report stage by 31 March 2023.

2.9 In addition, the performance targets listed below are annual in nature. Members will be updated on the performance against these targets within a separate Annual Report:

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting, then the Plan should be prepared for the first meeting of the financial year. This indicator was achieved for 2023/24 as the audit plan for the financial year 2023/24 was presented to the Committee in March 2023.

- **7. Chief Audit Executive's Annual Report** – presented at the June meeting of the Audit Committee. This indicator was achieved for 2023/24 as the Client Audit Manager's Annual Report (for 2022/23) was presented to the June 2023 meeting of this committee.

Summary of Performance Against KPI's

- 2.10 Whilst Plan delivery is naturally subject to a continued stable establishment and availability of client officers to support audits, we currently report no risks to the delivery of a robust annual assurance opinion.

APPENDIX A - PROGRESS AGAINST THE 2023/24 INTERNAL AUDIT PLAN

2023/24 Internal Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS *				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 49 days									
Business Rates (shared with EHC)						49	Yes	41	Draft Report Issued
Council Tax (shared with EHC)	Substantial	0	0	0	2		Yes		Final Report Issued
Housing Benefits (shared with EHC)	Substantial	0	0	0	0		Yes		Final Report issued
Treasury Management (risk & control mapping refresh)							Yes		In Planning
Debtors (follow up)							Yes		Deferred
Creditors (risk & control mapping refresh)							Yes		Draft Report Issued
Payroll & Expenses							Yes		In Fieldwork
Housing Rents							Yes		Draft Report Issued
Cash & Banking (risk & control mapping refresh)							Yes		Draft Report Issued
Operational Audits – 100 days									
Housing Regulator Reporting						12	Yes	5	In Fieldwork
Community Grants & Funding						12	Yes	9	Quality Review
Communities External Commissions						10	Yes	9.5	Draft Report Issued
Land Charges	Substantial	0	0	0	0	10	Yes	10	Final Report Issued
S106 Spend Arrangements	Substantial	0	0	0	0	10	Yes	10	Final Report Issued
Court Cost Tracking						10	Yes	9.5	Draft Report Issued
Leaseholder Liability & Billing	Substantial	0	0	0	3	12	Yes	12	Final Report Issued
Bed & Breakfast Accommodation						2	Yes	2	Cancelled
Wholly Owned Company (Decision Making)						12	Yes	5	In Fieldwork
Leisure Contract Management						10	Yes	1.5	In Fieldwork
Corporate Services/Themes – 57 days									
Tender Process						15	Yes	10.5	In Fieldwork

APPENDIX A - PROGRESS AGAINST THE 2023/24 INTERNAL AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS *				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Risk Management (risk & control mapping)						10	Yes	0	Allocated
Governance (risk & control mapping)						10	Yes	0	Allocated
Performance Indicators	Substantial	0	0	0	0	10	Yes	10	Final Report Issued
Sickness Absence Management						12	Yes	0	Allocated
IT Audits – 12 days									
Mobile Phone Security (shared with EHC)						6	Yes	2	ToR Issued
IT Project Management (shared with EHC)						6	Yes	2	ToR Issued
Completion of 2022/23 Projects – 6 days									
Debtors	Reasonable	0	1	1	1	2	Yes	2	Final Report Issued
Housebuilding & Acquisitions	Substantial	0	0	0	1	2	Yes	2	Final Report Issued
IT Malicious Software	Reasonable	0	0	4	0	2	Yes	2	Final Report Issued
Contingency – 24 days									
Contingency						24	N/A	0	Through Year
Strategic Support – 52 days									
On Demand Grant Audits						5	Yes	0	Through Year
Head of Assurance Opinion						3	Yes	3	Complete
Audit Committee & Recommendation Follow Up						10	Yes	6.5	Through Year
Client Engagement & Adhoc Advice						10	Yes	8	Through Year
2024/25 Audit Planning						5	Yes	3	In Progress
Service Development						5	Yes	5	Through Year
Progress Monitoring						12	Yes	9	Through Year
SAFS Related Matters						2	Yes	0	Allocated
SBC TOTAL		0	1	5	7	300		177.5	
* C = Critical Priority, H = High Priority, M = Medium Priority, LA = Low/Advisory Priority									

APPENDIX B: IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

The following appendix provides Audit Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Jan 2024)
1.	Debtors (2022/23).	<p><u>Recommendation:</u> <u>Debt Recovery – Reminders and Payment Arrangements.</u></p> <ul style="list-style-type: none"> - The Council should introduce regular reporting of all debts at a specific point in time i.e. every month, which should include the recovery actions taken and the current recovery position. Where it is identified that debts are not at the recovery position they should be, or the necessary recovery action has not taken place, this should be investigated and rectified. - The Council should ensure that the Procedure Note for Dealing with Debt Recovery is version controlled to show the date of creation and date of the next review. - The Council should consider discussing with their IT department how to differentiate arrangement payments from outstanding payments on Integra. <p><u>Agreed Management Action(s):</u></p> <ul style="list-style-type: none"> - Currently exploring a technological solution to monitoring debt and progressing recovery. - Agreed. - This is being considered as part of the Major Integra system upgrade. 	<p>Responsible Officer: Debt Manager Due Date: 31 March 2024.</p>	<p><u>January 2024.</u> Work currently in progress.</p>	<p>Not yet due.</p>

APPENDIX C: INTERNAL AUDIT PLAN 2023/24 – PLANNED AUDIT START DATES

Apr	May	Jun	July	Aug	Sept
Debtors 2022/23 (Final Report)	Performance Indicators (Final Report)	Community Grants & Funding (Quality Review) c/f from May	Court Cost Tracking (Draft Report) c/f from June	Leaseholder Liability & Billing (Final Report)	S106 Spend Arrangements (Final Report)
Housebuilding & Acquisitions 2022/23 (Final Report)			Land Charges (Final Report)	Communities External Commissions (Draft Report)	
IT Malicious Software 2022/23 (Final Report)				Homeless Bed & Breakfast (Cancelled)	
				Tender Process (In Fieldwork) c/f from July	
Oct	Nov	Dec	Jan	Feb	Mar
Wholly Owned Company (Decision Making) (In Fieldwork)	Mobile Device Security (ToR Issued)	Business Rates (Draft Report)	Corporate Governance (risk & control mapping) (Allocated)	Risk Management (risk & control mapping) (Allocated)	
Housing Rents (Former Tenant Arrears) (Draft Report)	Housing Benefits (Final Report)	Housing Regulator Reporting (In Fieldwork)	Sickness Absence Management (Allocated)	Treasury Management (risk & control mapping refresh) (Allocated)	
Council Tax (Final Report) b/f from January	IT Project Management (ToR Issued) c/f from July	Debtors (follow up) (Deferred)	Cash & Banking (risk & control mapping refresh) (Draft Report)		
	Payroll & Expenses (In Fieldwork) c/f from September	Creditors (risk & control mapping refresh) (Draft Report)	Leisure Contract Management (In Fieldwork)		

APPENDIX D - ASSURANCE / RECOMMENDATION PRIORITY LEVELS

Audit Opinions	
Assurance Level	Definition
Assurance Reviews	
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.
Grant / Funding Certification Reviews	
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.
Recommendation Priority Levels	
Priority Level	Definition
Corporate	Critical Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

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**AUDIT COMMITTEE/ EXECUTIVE
/ COUNCIL**

Portfolio Area: Resources

Date: 6 February 2024 / 7 February 2024
/ 21 February 2024



ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL INDICATORS 2024/25

NON-KEY DECISION

Author – Rhona Bellis
Contributor – Reenu Keogh
Lead Officer – Brian Moldon
Contact Officer – Brian Moldon

1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2024/25, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Executive committees.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Executive, the 2024/25 Treasury Management Strategy is recommended to Council for approval.

2.2 Executive

That subject to any comments made by the Executive, in addition to those made by the Audit Committee, the 2024/25 Treasury Management Strategy is recommended to Council for approval.

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2.3 Council

That subject to any comments from the Audit Committee and the Executive, the 2024/25 Treasury Management Strategy be approved by Council.

3 BACKGROUND

- 3.1.1 CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021 for implementation from 2023/24. This Council therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.
- 3.1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 3.1.5 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.”*
- 3.1.6 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

3.2 Reporting requirements

3.2.1 Capital Strategy

The Capital Strategy will be brought before members as a separate report. The aim of that strategy is to ensure that all Members of the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.2.2 Treasury Management reporting

The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

- a. **Prudential and treasury indicators and treasury strategy** (this report) -
 - 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 Annual Investment Strategy, (the parameters on how investments are to be managed).
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

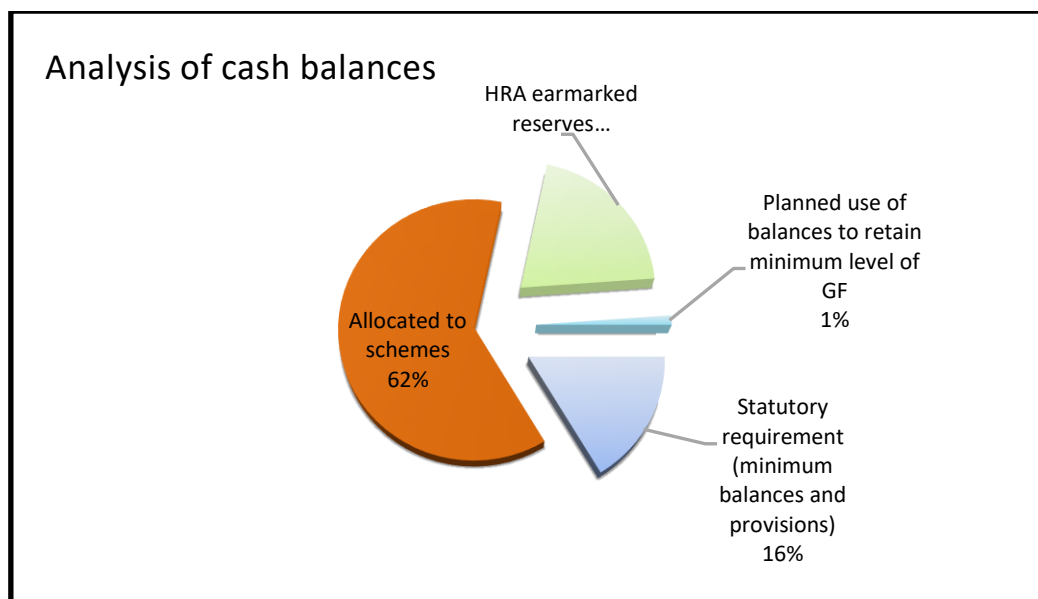
3.2.3 These reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Executive.

3.2.4 In addition to the three major reports detailed above from 2023/24 quarterly reporting is also required and form an appendix to the quarterly Capital monitoring reports, where not included in the main reports. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Executive (The reports should comprise updated Treasury / Prudential Indicators only).

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Performance of Current Treasury Strategy

- 4.1.1 For the financial year to 31 December 2023 returns on investments have averaged 3.48% and total interest earned was £1,293,369 contributing to General Fund and Housing Revenue Account income.
- 4.1.2 Cash balances as of 31 December 2023 were £40Million and are forecast to be £41Million as of 31 March 2024. The Council's balances are made up of cash reserves e.g., HRA and General Fund balances, restricted use receipts such as right to buy one for one receipts and balances held for provisions such as business rate appeals, reduced by internal borrowing.
- 4.1.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a 30-year period, which means, while not committed in the current year; they are required in future years.
- 4.1.4 The Council's current investment portfolio is held for Treasury management purposes only and consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D).
- 4.1.5 There have been **no breaches** of treasury **counter party limits**, with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2023/24 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during the year may be placed in the DMO temporarily if cash balances, due to the timing of taking out new loans would breach other counterparty limits.
- 4.1.6 The following chart shows the planned use of cash balances at 31 December 2023.



4.2 Treasury Management Strategy for 2024/25

4.2.1 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
- the policy on use of external service providers.

4.2.2 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.

4.2.3 The Council's Treasury Management Policy Statement can be found at **Appendix A**.

4.2.4 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring the separation of the core treasury function under security,

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liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

4.2.5 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

- **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.

- **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

- **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

4.2.6 The Council's current investment portfolio is held for Treasury management purposes only.

4.2.7 **Environmental, social and governance (ESG)** investment considerations - investment considerations here means understanding the ESG "risks" that the council is exposed to and evaluating how well it manages these risks. It is NOT the same as Socially Responsible Investing.

4.2.8 Managing the ESG risk is already part of the current Treasury Investment Strategy, as the council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings.

4.3 Training

4.3.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

4.3.2 The last training arranged for members took place in September 2023 and January 2024, further training will be arranged as required.

4.3.3 The training needs of treasury management officers are periodically reviewed.

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4.3.4 A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Technical Accounting. Similarly, a formal record of the treasury management training received by members will also be maintained by the Head of Technical Accounting.

4.4 Treasury Management Consultants

4.4.1 The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

4.4.2 The Authority recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

4.5 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.

4.6 Capital Expenditure and Financing – this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the Capital Strategy 2024/25. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure £000	2022/23 Actual	2023/24 Estimate	2024/25E stimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	17,814	23,895	33,558	13,803	424
HRA	43,966	43,017	54,831	56,458	35,939
Total	61,780	66,912	88,389	70,261	36,363

4.6.1 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 £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	15,667	12,031	7,945	10,943	9,479
Capital grants and contributions	10,431	14,677	33,542	11,465	4,409
Capital reserves	476	715	654	104	0
Revenue	1,215	434	7,055	3,835	3,316

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Major Repairs Reserve	24532	19883	20417	15494	16233
Net financing need for the year	52,321	47,740	69,613	41,841	33,437
Capital Expenditure requiring borrowing	9,459	19,172	18,776	28,420	2,926

4.7 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 its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

4.7.1 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.

4.7.2 The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes.

4.7.3 The Council is asked to approve the CFR projections below:

£000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
General Fund excluding Finance Lease	38,788	45,831	44,164	51,345	32,473
Finance Lease	16,733	16,473	16,206	15,933	15,652
Total General Fund	55,521	62,304	63,370	67,278	48,125
Housing	264,538	275,873	284,060	305,547	300,473
Total CFR	320,058	338,177	347,430	372,825	348,598
Movement in CFR		18,119	9,253	25,395	(24,227)

Movement in CFR represented by					
Net financing need for the year (above)		19,172	18,776	28,420	2,926
Internal and External debt repayments			(8,963)	(1,500)	(26,000)
Less MRP/VRP and other financing movements		(1,053)	(560)	1,525	(1,153)
Movement in CFR		18,119	9,253	25,395	(24,227)

4.8 Liability Benchmark

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

Financial Year End	2024 £'000	2025 £'000	2026 £'000
(Over)/Under Liability Benchmark	(22,456)	(7,925)	(11,025)

4.8.2 This benchmark compares actual loan debt outstanding and the liability benchmark (loans less investments, plus a liquidity buffer). Years where actual loans are less than the benchmark (negative value) indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark (positive value) represent a technically overborrowed position.

4.8.3 The table above shows the current forecast overborrowed position remaining over the short term. This shows that in each year, there are theoretical investment balances that if unallocated, could be used to pay off debt.

4.8.4 Investment balances held by the council are already allocated and are not available for repayment of debt or additional capital expenditure. As a result, the Council will need to externally borrow to replace internal borrowing in the medium term.

4.8.5 Cashflow is monitored on an ongoing basis to ensure that the timing of external borrowing to support the Capital Strategy and Treasury function is undertaken in a timely and prudent manner.

4.9 Core Funds and Expected Investment Balances

4.9.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	99,775	93,632	80,048	68,843	67,564
Provisions	5,352	5,152	4,152	3,152	3,152
Total core funds	105,127	98,784	84,200	71,995	70,716
Working capital*	6,946	(12,305)	(3,101)	7,439	(11,432)
(Under)/over borrowing	(68,505)	(45,543)	(38,948)	(34,183)	(6,045)
Expected investments	43,568	40,936	42,151	45,251	53,239

*Working capital balances shown are estimated year-end; these may be higher mid-year

4.10 Minimum Revenue Provision (MRP) Policy Statement

4.10.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

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4.10.2 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

4.10.3 The MRP policy statement requires full council approval in advance of each financial year. The Council is recommended to approve the MRP Statement at **Appendix B** to this report.

4.10.4 DLUHC is currently consulting on changes to statutory guidance and regulations relating to MRP. The consultation will close on 16th February 2024 with planned implementation from 1 April 2024. At this time the impact of proposed changes is not considered significant for the council.

4.11 Borrowing

4.12 The capital expenditure plans set out in paragraph 4.6 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.12.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2023 and as at 31 December 2023 are shown below for both borrowing and investments.

TREASURY PORTFOLIO		
£000	actual	current
	31.3.23	31.12.23
Total treasury investments	43,608	40,285
Treasury external borrowing:		
PWLB	227,750	234,987
Finance Leases and other external borrowing	23,803	23,543
Total external borrowing	(251,553)	(258,530)
Net treasury investments / (borrowing)	(207,945)	(218,245)

4.12.2 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 see table in paragraph 4.7.3), highlighting any over or under borrowing.

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£000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	246,489	251,553	292,574	308,482	338,642
Expected change in Debt	0	41,281	16,174	31,433	4,192
Expected change in Other long-term liabilities (OLTL)	5,064	(260)	(266)	(273)	(281)
Actual gross debt at 31 March	251,553	292,574	308,482	338,642	342,553
The Capital Financing Requirement	320,058	338,117	347,430	372,825	348,598
(Under) / over borrowing	(68,505)	(45,543)	(38,948)	(34,183)	(6,045)

4.12.3 Within the range of prudential indicators there are several 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.

4.12.4 Based on the capital programme 2024/25 (February 2024 Update) resourcing projections, the Council has the following borrowing requirements in 2024/25:

- General Fund £2.5Million in relation to the wholly owned housing development company pending approval of relevant business plans.
- HRA £7.5Million.

4.12.5 The s151 officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

4.13 Treasury Indicators: Limits to Borrowing Activity

4.13.1 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR (see paragraph 4.7.3) but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	60,875	70,904	74,813	55,659
General Fund additional borrowing facility available to the Housing (WOC) Wholly Owned Company	15,000	15,000	15,000	15,000
Total - General Fund	75,875	85,904	89,813	70,659
HRA	279,874	288,060	309,547	304,473

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Operational Boundary £000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	355,749	373,964	399,360	375,132
Previous Operational Boundary	362,876	365,322	364,518	364,518

4.13.2 **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.

- 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Council is asked to approve the following Authorised Limit:

Authorised Limit £000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Finance lease	16,800	16,800	16,000	16,000
General Fund Borrowing for capital expenditure including WOC	72,875	82,904	86,813	67,659
Total Borrowing - General Fund	89,675	99,704	102,813	83,659
Borrowing - HRA	283,874	292,060	313,547	308,473
Total	373,549	391,764	416,360	392,132
Previous Authorised Limit	390,876	373,322	372,518	372,518

4.14 Prospects for Interest Rates

4.14.1 The Council retains Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8 January 2024 and these are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 (standard rate minus 60 bps).

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Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

4.14.2 The Bank of England (BOE) base rate stands at 5.25% currently and is expected to remain at this level for the first half of 2024, reducing gradually thereafter when both the CPI inflation and wage/employment data are supportive of such a move.

4.14.3 The CPI measure of inflation (a key bank of England KPI driving decisions on interest rates) has been falling in recent months and is now 3.9%. The BOE Monetary Policy Committee (Dec 2023) maintained that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”. And it reiterated that policy will be “sufficiently restrictive for sufficiently long”

4.14.4 Since the December rate decision, the Bank’s position has not prevented the markets from forming a view that rates will be falling soon. Accordingly, swap rates and gilt yields have reduced significantly over the past month despite a partial rebound upwards since the turn of the year.

4.14.5 Regarding PWLB rates, movement in the short part of the curve has reflected the revised Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates remain influenced not only by the outlook for inflation, but by the market’s appetite for significant gilt issuance.

4.15 Current Borrowing Position

4.15.1 The estimated Council’s capital financing requirement (CFR) for 2023/24 is £338Million (see paragraph 4.7.3). 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. The Council had £270Million in external debt at 31 December 2023, of which PWLB debt and its purpose is detailed in the table below.

Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	1,756
HRA	
Decent Homes	38,320
Self-Financing	194,911
Total HRA Loans	234,231
Total PWLB Debt at 31st December 2023	224,987

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4.15.2 The Council is forecast to utilise (short term) £68Million of 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 if any upside risk to gilt yields prevails.

4.15.3 External borrowing for the HRA of £7.5Million has been taken in 2023/24. The capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

4.15.4 PWLB maturity certainty rates (gilts plus 80bps) have fluctuated recently following on from gradual rises during 2023. The 50-year PWLB 5 to 50 years Certainty rates are, generally, in the range of 4.5% to 5%. (equivalent 4.1% to 4.6% - HRA certainty rate).

4.15.5 The General Fund has PWLB external borrowing of £1.8Million and other external borrowing of £7.6Million (Local Enterprise Partnership - LEP) and finance lease of £16.5Million (Aviva). Discussions are continuing with the LEP regarding making these re-investible loans for further regeneration of the town, rather than needing to be repaid on the dates originally agreed. As indicated in the table, the current position is that the remaining balance is repayable - £6.57Million in 2030 and £1Million in 2025. The loans are at zero interest.

Table 5: LEP Loans					
Loan Received	Site Assembly	Land Assembly	SG1	Repaid	Total
2015/16	762,488			(208,795)	553,693
2018/19	416,306				416,306
2019/20		4,108,709			4,108,709
2020/21		1,491,291	500,000		1,991,291
2022/23			500,000		500,000
Total	1,178,794	5,600,000	1,000,000	(208,795)	7,569,999

4.15.6 The Aviva finance lease entered in 2018/19 for 37 years was immediately sublet to Queensway Properties (Stevenage) LLP for 37 years, phase 2 increased the value of this lease and this is reflected in the CFR 2022/23.

4.15.7 The HRA has external borrowing from PWLB of £233.231Million

- £7.763Million from pre-2012,
- £4.010Million taken out in 2019/20,
- £10.0 Million taken out in 2020/21,

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- £9.047Million taken out in 2021/22 and
- £7.5Million taken out in 2023/24.

The remainder of £194.911 Million relates to HRA self-financing payment made to central government in 2012.

4.15.8 The target average borrowing rate in the latest HRA Business Plan is 5.3% for 2023/24, falling to 5% in 2024/25 and 4.6% in 2025/26.

4.15.9 The HRA BP includes a heightened reserves provision going forward to mitigate the risk associated with having a higher borrowed BP .

4.15.10 Finance leases entered between the HRA and Marshgate Ltd during 2021/22 and 2022/23, the Council's wholly Owned Housing Company, relating to 10 residential dwellings, leased for 25 years amounted to £1.3Million.

4.16 Borrowing Strategy

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

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

4.16.3 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.17 Policy on Borrowing in advance of Need

4.17.1 It is the Council's intention not to borrow more than or in advance of its needs purely 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.

4.17.2 In determining whether borrowing will be undertaken in advance of need the Council will.

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

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- ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.18 Rescheduling

4.18.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

4.19 ANNUAL INVESTMENT STRATEGY

4.20 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

4.20.1 In managing the TM function other areas kept under review include:

- Training opportunities available to Members and officers (the most recent training for Members took place on 28 September 2023 and 25th January 2024)
- That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
- A full mid-year review of the TMS will be reported in 2024/25

4.20.2 The 2024/25 Strategy uses the credit worthiness service provided by Link Asset Services (formerly known as Capita Treasury Solutions) the Council’s treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.

4.20.3 While Link Asset Services may advise the Council, the responsibility for treasury management decisions always remains with the Council and officers do not place undue reliance on the external service advice.

4.20.4 The TM limits for 2024/25 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2023/24.

4.20.5 The latest list of “Approved Countries for Investment” is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA-. The Council retains the discretion not to

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invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.21 Non-Treasury Investments

4.21.1 The CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.21.2 Details of the Annual Investment Strategy can be found in Appendix A.

4.22 Investment returns expectations

4.22.1 The current BOE base rate of 5.3% is expected to remain for the rest of 2023/24. 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 (remainder)	5.3%
2024/25	4.7%
2025/26	3.2%
2026/27	3.0%
2027/28	3.25%
Years 6+	3.25%

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

4.22.3 Against this view the forecast of interest earned on Treasury investments in 2024/25 is £1.9Million based on average balances of £42million.

4.22.4 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, to benefit from the compounding of interest.

4.23 Changes of investment strategy

4.23.1 There are no proposed changes to the Strategy for 2024/25.

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4.24 OTHER ISSUES

- 4.25 UK Sovereign rating and investment criteria:** The UK sovereign rating is currently on the lowest acceptable level suggested for approved countries as set out in Appendix E. The Council's investment criteria only use countries with a rating of AA- or above. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.
- 4.26 Queensway Properties (Stevenage) LLP:** In December 2018, the Council entered into a 37-year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties (Stevenage) LLP, was incorporated to manage the rental streams and costs associated with the scheme.
- 4.27 Queensway Properties (Stevenage) LLP 2nd phase:** the first phase of the head lease was recognised on the Council's balance sheet and the operational borrowing limit was increased to reflect the valuation. The second phase of residential properties has now been recognised. The balance sheet valuation of the finance lease has increased and the operational and authorised borrowing limits for the General Fund have been increased accordingly. This has been reflected in the TM indicators. The Council's treasury management team offered its services to the LLP, to manage and invest its surplus cash flows through a service level agreement.
- 4.28 IFRS16 – Leasing:** As reported previously, some currently off-balance sheet leased assets may need to be brought onto the balance sheet under IFRS 16, however CIPFA LASAAC Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2024/25 financial year. It is unlikely that this change will have a significant impact for Stevenage.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is of a financial nature and reviews the treasury management function for 2023/24 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.
- 5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

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5.2 Legal Implications

- 5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.
- 5.2.2 There have been no changes to PWLB borrowing arrangements or changes to the Prudential and Treasury Management codes since the last Treasury report.

5.3 Risk Implications

- 5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.
- 5.3.2 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.
- 5.3.3 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to consider the relative risk of investments and to preclude certain grades of investments and counterparties to prevent loss of income to the Council.
- 5.3.4 There is a risk to the HRA BP's ability to fund the approved 30-year spending plans if interest rates rise above planned rates - this will be included in future revisions to the BP.

5.4 Equalities and Diversity Implications

- 5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.
- 5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change Implications

- 5.5.1 The council's investment portfolio is invested in sterling investments and not directly in companies. These investments are short term and mainly used for working capital purposes. The council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty

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ratings. In this way the TM team aligns with the Councils ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2023/24 (Council February 2023)

APPENDICES

- Appendix A - Treasury Management Strategy (TMS)
- Appendix B - Minimum Revenue Provision Policy
- Appendix C - Prudential Indicators
- Appendix D - Specified and Non-Specified Investment Criteria
- Appendix E - Approved Countries for investment

Appendix A Treasury Management Strategy 2024/25

1. Treasury Management Policy Statement

- 1.1. The Council defines its treasury management activities as: “*The management of the authority’s 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*”.
- 1.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 1.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 1.4. This Strategy has been prepared in accordance with the CIPFA Treasury Management Code 2021. The Code requires the Council to approve the Treasury Management Strategy annually and to produce a mid-year and annual report. In addition, Members in both Executive and Scrutiny functions receive monitoring reports and regular reviews. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities regarding delegation and reporting.
- 1.5. The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy to set out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

2. Annual Investment Strategy

2.1. Investment Policy – Management of Risk

- 2.1.1. The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

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 Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and regarding the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

2.1.2. The guidance from the DLUHC and CIPFA place 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: -

- a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- b. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- c. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d. 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 Appendix 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.
 - **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.

The Council has determined that it will limit the maximum total exposure to non-specified investments as detailed in Appendix D.

- e. **Lending limits and Transaction Limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix D and will consider investments longer than 365 days
- f. This authority has engaged **external consultants**, Link Asset Services, 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.
- g. All investments will be denominated in **sterling**.
- h. The Council only invests in counterparties with a high credit quality in the UK or other countries meeting minimum AA- sovereign rating. The Council

understands that changes have taken place to the ratings agencies and that their new methodologies mean that sovereign ratings are now of lesser importance in the assessment process. However, the Council continues to specify a minimum sovereign rating as the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution (see Appendix E).

- i. As a result of the change in accounting standards for 2023/24 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. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.
- j. However, this Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

2.2. Creditworthiness policy

2.2.1. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. Based on this this main principle, the Council will ensure that:

- It maintains a policy covering the categories of financial instruments it will invest in, maximum investment duration, criteria for choosing counterparties with adequate security, and monitoring their security.
- 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 of the maximum principal sums invested more than 364 days.

2.2.2. The Assistant Director (Finance) will maintain a counterparty list in compliance with the criteria in the Strategy for Specified and Non-Specified Investment and will revise the criteria and submit them to Council for approval as necessary.

2.2.3. In determining the credit quality, the Council uses the Fitch credit ratings, together with Moody and Standard & Poor's equivalent where rated. Not all counterparties are rated by all three agencies and the Council will use available ratings.

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

- Credit watches and credit outlooks from credit rating agencies.

- Credit Default Swap (CDS) spreads. A CDS is a contract used to insure the holder of a bond against default by the issuer. A CDS can act as an indicator of default risk and provide an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Link Asset Services modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

2.2.5. Credit ratings will be monitored whenever an investment is to be made, using the most recent information. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data daily via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

2.2.6. Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data including information on government support for banks and the credit ratings of that government support.

2.2.7. The Council receives updates from Link on future changes to Money Market Funds (MMF) that might affect the liquidity or risk of the fund. The Council is likely to change its approach to the use of MMF should liquidity or risk be adversely affected.

2.2.8. There are alternatives to the PWLB for borrowing, for both the General Fund and the HRA, including the UK Municipal Bonds Agency. The UKMBA provides funding through three lending programmes. Current UKMBA trading levels in the market, inclusive of all fees, are lower than the PWLB Certainty rate at like maturities.

- Proportionally guaranteed, pooled loans of £1 million or more for maturities greater than one year.
- Standalone loans to a single local authority for £250 million or more for maturities greater than one year. These loans are outside of the proportional guarantee and are guaranteed solely by the borrower, who must obtain an external credit rating from one or more of the major credit rating agencies.
- Short term, pooled loans, outside of the proportional guarantee for maturities of less than one year.

To date the borrowing rates available were lower than those offered for comparable loans available from the Public Works Loans Board (PWLB) at the time of issuance. The Council may make use of this alternative source of borrowing as and when appropriate.

2.3. Investment Strategy

2.3.1. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements, anticipated capital financing 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 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.

- If it is thought that Bank of England base rate (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.

3. Country limits

3.1. The Council has determined that it will only use approved counterparties from UK or selected countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This is part of the criteria used to produce the Council's Counterparty List.

4. Borrowing Strategy and Policy on Borrowing in Advance of Need

4.1. 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. The current strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels as current high inflation rates are expected to continue to reduce throughout 2024/25.

4.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. When prudent to do so "internal borrowing" will be replaced with external borrowing in order to reduce interest rate risk.

4.3. Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.4. The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

4.5. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.6. Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

5. End of year investment report

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

6. Policy on the use of external service providers

6.1. In October 2023, the Council reappointed Link Asset Services as its treasury management advisors on a three-year contract. The new contract commenced on 1 November 2023.

6.2. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon our external service providers.

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

7. Scheme of Delegation and Role of Section 151 officer

7.1. The Council has the role of:

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- 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

7.2. **The Audit Committee** has the role of reviewing the policy and procedures and making recommendations to Council.

7.3. The Section 151 Officer has the role of:

- 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (covered in Annual Capital Strategy Report).

In addition, high value and/or urgent payments can be made by CHAPS by the Treasury Team, however as these can have a material impact on cash flows on the day, authorisation for this type of payment must be obtained from the S151 or deputy S151 Officer.

7.4. Reporting arrangement to the Council and the Audit Committee is as below:

Area of Responsibility	Council Committee	Frequency
Treasury Management Policy Statement (revised)	Council	Initial adoption in 2010

Area of Responsibility	Council Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and Minimum Revenue Provision (MRP) policy	Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and MRP policy – mid-year report	Council	Annually before the end of the year
Treasury Management Strategy / Annual Investment Strategy / Prudential Indicators and MRP policy – updates or revisions at other times	Council	As required.
Annual Treasury Outturn Report	Council	Annually by 30 th November
Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of Treasury Management performance (mid year)	Audit Committee	Annually by 31 st December

Appendix B (February 2024 Update)

Minimum Revenue Provision Policy

Minimum Revenue Provision Policy Statement 2024/25

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it is necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision.

The **preferred method for existing underlying borrowing is Option 3 – the Asset Life Method** (out of 4 allowable options), whereby the MRP will be spread over the useful life of the asset which range. Useful life is dependent on the type of asset and was reviewed in 2019/20. Following that review asset lives now ranges from 7 years (ICT equipment) to 50 years (Investment properties, regeneration sites and car parks for example).

In applying the new asset lives historic MRP had been overpaid and in accordance with current MHCLG MRP Guidance can be reclaimed in future years. The council has a policy to ring fence costs and income associated with regeneration assets and as such has shown these MRP changes separately, see table below. The overpayment of £1,057,660.39 results in no MRP needing to be charged to the accounts for the regeneration assets until 2025/26, when a partial charge will be required, utilising the remainder of the overpayment balance.

voluntary MRP made		Use of overpayment	
	Regeneration		Regeneration
2012/13	£46,929.65	2020/21	£193,703.12
2013/14	£140,788.95	2021/22	£193,703.12
2014/15	£163,165.30	2022/23	£193,703.12
2015/16	£141,355.30	2023/24	£193,703.12
2016/17	£141,355.30	2024/25	£193,703.12
2017/18	£141,355.30	2025/26	£89,144.79
2018/19	£141,355.30		
2019/20	£141,355.30		
cumulative total	£1,057,660.39	cumulative total	£1,057,660.39

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

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

There is no requirement to make to make a minimum revenue provision for GF capital expenditure relating to Housing development.

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THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

The Authority'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.

(a) Capital Expenditure

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. This includes spending on assets owned by other bodies, loans and grants to other bodies enabling them to buy assets.

Capital Expenditure	2024/25 Draft Capital Strategy £000	2025/26 Estimate £000	2026/27 Estimate £000
General Fund	23,895	33,558	13,803
HRA	54,831	56,459	35,939
Total Capital Expenditure	78,726	90,017	49,742

(b) Affordability Prudential Indicator

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 Authority's overall finances. The Authority is asked to approve the following indicators: -

Ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream %	2023/24 Estimate %	2024/25 Draft Capital Strategy %
General Fund	4%	6%
HRA	14%	14%

General Fund: Net revenue stream is the RSG, NNDR grant and Council Tax raised for the year.

HRA: The net revenue stream is the total HRA income shown in the Council's accounts from received rents, service charges and other incomes. The ratio of financing costs to net revenue stream reflects the high level of debt as a result of self financing.

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

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Appendix D
Specified and Non-specified Investment Criteria
(including Treasury Limits and Procedures)

Table 1

Specified Investments are sterling denominated with maturities up to maximum of one year and must meet the following minimum high credit quality criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Overnight Deposit	Fitch: Short Term F1 and Long Term A and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different	Maximum duration as per Treasury Advisor's (Capita's) colour coded Credit List, and less than one year
	Notice Account	Part-nationalised or Nationalised UK banking institutions (subject to regular reviews of government share percentage).	
	Short Term Deposit		
Debt Management Office or UK Local Authority	Any deposit	No limit.	
Money Market Funds	Instant Access or with Notice	AAA rated	Instant Access or notice period up to one year

Table 2

Non-Specified Investment are sterling denominated with a maturity longer than one year but no longer than five years, and must meet the following criteria:

Investment Counterparty	Investment Instrument	Minimum High Credit Quality Criteria	Investment Duration
Banks or Building Societies	Any deposits with maturity up to a maximum of five years	Fitch: Short Term F1+ and Long Term AA- and Moody, Standard & Poor, equivalent where rated, the lowest rating used where different	Maximum duration suggested by Treasury Advisor's (Capita's) colour coded Credit List, and not in excess of five years
Debt Management Office or UK Local Authority		No Limit.	

Table 3

Treasury Limits

Investment Instrument	Cash balances less than £30Million	Cash balances higher than £30Million
	Limits	Limits
Variable Rate Investments (Excluding Enhanced Cash Funds)	Maximum holding £30M	Maximum holding 100%
Counterparty limits (to encompass all forms of investment)	Maximum £5M	Maximum £10M
Instant Access Or Overnight Deposit	Maximum holding 100%	
Fixed Rate less than 12 month maturity	Maximum holding 100%	
Fixed Rate more than 12 months to maturity (includes all types of Fixed Rate Investments i.e. Certificates of Deposits)	Maximum £5M	Maximum £10M
Money Market Funds - Traditional Instant Assess (Counterparty Limit per Fund)	Maximum £5M per MMF	Maximum £10M per MMF
	No limit on total cash held	
Enhanced Cash Funds	Maximum £3M	
Certificates of Deposits	Maximum £5M	
Property Funds	Maximum of £3M - No durational limit. Use would be subject to consultation and approval	

Procedures of Applying the Criteria and Limits

Before the Treasury Team makes an investment, the Team will follow the follow procedure to ensure full compliance with the Specified and Non-Specified Criteria and Treasury Limits:

1 Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link Asset Services (LAS), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them.

2 If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by LAS in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override).

3 Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits.

APPENDIX E: Approved Countries (with Approved counterparties) for Investments (January 2024)

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A

AA

- United Arab Emirates

AA-

- Belgium
- Qatar
- France

The UK is exempt from the sovereign rating criteria as recommended by Link Asset Services. The UK sovereign rating is currently AA-.

The above list includes the possible countries the Council may invest with. Not all of these countries are used or will be used in treasury management investments

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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