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AUDIT COMMITTEE

Date: Wednesday, 4 September 2024

Time: 7.00pm,

Location: Council Chamber - Daneshill House, Danestrete

Contact: Chris Liasi

Chris.Liasi@stevenage.gov.uk

Members: Councillors: C Veres (Chair), T Plater (Vice-Chair), L Briscoe, P Bibby CC, R Boyle, L Guy, M Humberstone, C Roopchand, A Wells and T Wren

AGENDA

PART 1

1. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

2. MINUTES OF PREVIOUS MEETING

To approve as a correct record the minutes of the meeting held on 4th June 2024.

Pages 3 – 6

3. SAFS ANNUAL REPORT 2023/24 AND UPDATE ON THE CURRENT YEARS WORK

To consider the SAFS Annual Report 2023/24 and an update on the current years works.

Pages 7 – 38

4. PROGRESS WITH SAFS ANTI-FRAUD PLAN 2024/25

To consider the progress with SAFS Anti-Fraud Plan 2024/25.

Pages 39 – 44

5. INTERNAL AUDIT PLAN 2024/25 - PROGRESS REPORT

To consider a report on the SIAS Internal Audit Plan 2024/25.

Pages 45 – 62

6. ANNUAL TREASURY MANAGEMENT STRATEGY - REVIEW OF 2023/24

To consider the Annual Treasury Management strategy review of 2023/24.

7. URGENT PART 1 BUSINESS

To consider any Part 1 business accepted by the Chair as urgent.

8. EXCLUSION OF PUBLIC AND PRESS

To consider the following motions –

1. That under Section 100(A) 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.

9. INTERNAL AUDIT PLAN 2024/25 - PROGRESS REPORT

1, 2, 5

To consider the Internal Audit Plan 2024/25 progress report.

10. STRATEGIC RISK REGISTER

1, 2, 5

To consider the latest Strategic Risk Register.

11. URGENT PART II BUSINESS

1, 2, 5

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

NOTE: Links to Part 1 Background Documents are shown on the last page of the individual report, where this is not the case they may be viewed by using the following link to agendas for Executive meetings and then opening the agenda for Wednesday, 4 September 2024 – <http://www.stevenage.gov.uk/have-your-say/council-meetings/161153/>

Public Document Pack Agenda Item 2

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Tuesday, 4 June 2024

Time: 6.00pm

Place: Council Chamber

Present: Councillors: Carolina Veres (Chair), Lloyd Briscoe (Vice-Chair) Philip Bibby CC, Robert Boyle, Lynda Guy, Mason Humberstone, Tom Plater, Ceara Roopchand and Tom Wren

Start / End Time: Start Time: 6.00pm
End Time: 6.39pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were submitted on behalf of Councillors Anne Wells, and apologies for lateness from Councillor Tom Wren.

There were no declarations of interest.

The Chair welcomed the new Members of the Committee to the first meeting of the Municipal Year.

2 MINUTES - 26 MARCH 2024

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 26 March 2024 be approved as a correct record and signed by the Chair.

3 TERMS OF REFERENCE

The Chair explained to the Committee that within the Terms of Reference it stated that, a Cabinet Member could not Chair the Audit Committee. This meant that Councillor Briscoe (who was appointed at the Annual Council meeting) would not be able to chair a meeting should Councillor Veres be absent.

Councillor Veres then nominated Councillor T Plater, and Councillor L Briscoe seconded the proposal. A vote was carried out and the motion was carried.

It was **RESOLVED:**

- It was agreed that Councillor T Plater had been elected as Vice-Chair of the Audit Committee for the 2024/25 Municipal Year.
- The Terms of Reference for the Audit Committee, as agreed by the Annual Council meeting on 22 May 2024, be noted.

4 EXTERNAL AUDIT 2023/24 - PROGRESS REPORT

The Committee received a progress report from Azets in respect of the 2023/24 External Audit – progress report.

The purpose of the report was to provide the Audit Committee with a report on the progress in delivering the responsibilities as the external auditors. The papers included details of the progress made to date and where it was on track, where progress was on track, any initial finding which may impact the final accounts audits.

It was explained within the report, Azets were planning to complete the audit for SBC for the year ended 31 March 2024 in line with the statutory timetable and would report to the audit committee in late 2024 with the initial findings. It was explained they would not be able to complete the audit fully until the predecessor auditor has completed their audit for the year ended 31 March 2023. Once the 2023 audit has been completed, Azets would need to review the predecessor's audit file to gain assurance over SBCs opening balances as at 1 April 2023 and consider the impact on the audit for 2024 due to any modifications to their auditors report.

Councillors queried why the elections had disrupted the 22/23 statement of accounts and would need to wait till after the elections. It was suggested that EY should have brought forward their item onto this agenda. Officers stated it was due to the proposal around the backstop but there would be no parliament to lay the legislation until after the Election. Without the change in law, they would not be able to finish the audit. It was explained EY were focusing on all the audits that they had started but whichever audits had not begun, they would use it for the backstop.

It was **RESOLVED** the item be noted by the committee.

5 **ANNUAL ASSURANCE STATEMENT & INTERNAL AUDIT ANNUAL REPORT 2023/24**

The SIAS Client Audit Manager presented a report in respect of the SIAS Annual Assurance Statement and Annual Report 2023/24.

The SIAS Client Audit Manager stated that in line with the previous year, a reasonable assurance opinion had been issued regarding the Council's financial and non-financial systems, and that SIAS had concluded that SBC's corporate governance and risk management frameworks substantially complied with the CIPFA/SOLACE best practice guidance on corporate governance.

Councillors requested assurance that the weaknesses referred to had been corrected before they approved the report. In response to a question, the Officer stated the Corporate Governance Group, chaired by the chief finance officer had been monitoring throughout the year and all recommendations had been addressed. It was explained they were included within the annual governance statement and brought forward to the committee.

The Assistant Director of Finance confirmed to the committee that there were no inappropriate limitations on Internal Audit during 2023/24.

It was **RESOLVED**:

- That the Annual Assurance Statement and Internal Audit Annual Report 2023/24 was noted.
- That the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) was noted.
- That the SIAS Audit Charter 2023/24, as attached to the report, was approved.
- That it was confirmed that the scope and resources for internal audit were not subject to inappropriate limitations in 2023/24.

6 **ANNUAL GOVERNANCE STATEMENT 2023/2024 AND LOCAL CODE OF CORPORATE GOVERNANCE**

The Corporate Performance and Improvement Officer presented the Annual Governance Statement (AGS) and Local Code of Corporate Governance for 2023/24.

The Corporate Performance and Improvement Officer stated that the Local Code of Corporate Governance had been drawn up in conformity with the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government (2016)”. The document had been reviewed, and the changes were summarised in the table set out in Paragraph 3.2.4 of the report.

The Corporate Performance and Improvement Officer advised that the AGS was required to be reviewed each year. It described the Council’s governance arrangements, how they were reviewed, significant governance challenges and actions to address them. The Committee was advised that certain audits had been deferred due to officer availability.

It was **RESOLVED**:

1. That the changes to the Council’s Local Code of Corporate Governance, as attached at Appendix 1 to the report, be approved.
2. That the Council’s 2023/24 Annual Governance Statement, as attached at Appendix 2 to the report, be recommended for approval by the Statement of Accounts Committee.

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 - 26 MARCH 2024**

It was **RESOLVED** that the Part II Minutes of the meeting of the Audit Committee held on 26 March 2024 be approved as a correct record and signed by the Chair.

10 **STRATEGIC RISK REGISTER**

The Corporate Performance and Improvement Officer presented a report providing the Quarter 4 2023/24 (January to March 2024) update in respect of the Strategic Risk Register.

It was **RESOLVED** that the latest Strategic Risk Register be noted.

11 **URGENT PART II BUSINESS**

It was explained by the Chair and Assistant Director for Finance that training would be scheduled for Members of the Committee in due course.

CHAIR



Stevenage Borough Council

Audit Committee

September 2024

Anti-Fraud Report 2023/24

Purpose

1. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.
2. The Chartered Institute for Public Finance and Accountancy publicised its *Code of Practice on Managing the Risk of Fraud and Corruption* in 2014.
3. In March 2023, this committee approved the Anti-Fraud Plan for following 12 months which was developed with the Council's senior officers in partnership with SAFS. A copy of the Plan can be found here:

[Agenda for Audit Committee on Monday, 27 March 2023, 6.00pm \(stevenage.gov.uk\)](#)

4. This report provides details of the work undertaken by the Council and the Shared Anti-Fraud Service to protect the Council against the threat of fraud and the delivery of the Council's Anti-Fraud Plan for 2023/2024.

Recommendations

5. **Members are RECOMMENDED to:**
 - a) **Note the activity undertaken by the Shared Anti-Fraud Service (SAFS) to deliver the 2023/2024 Anti-Fraud Plan for the Council.**
 - b) **Note all Anti-fraud activity undertaken by Council Officers and SAFS to protect the Council and the public funds it administers.**

Background

6. National reports and alerts continue to be used by the Shared Anti-Fraud Service (SAFS) to ensure that the Council is kept up to date of all new and emerging fraud threats. This helps to mitigate or manage the Council's fraud risks through a programme of work including the Anti-Fraud Plan. Details of these reports, along with other recommended reading for Members, can be found below and at **Section 63** of this report.
7. Some of the most significant recent reports include:

Fighting Fraud and Corruption Locally a Strategy for the 2020's. This strategy focuses on the governance and 'ownership' of anti-fraud and corruption arrangements. The Strategy also identifies areas of best practice and includes a 'Checklist' to compare against actions taken by the Council to deter/prevent/investigate fraud. The checklist is maintained and reviewed by SAFS and officers.

UK Fraud Strategy 'Stopping Scams and Protecting the Public. The Government launched its latest anti-fraud strategy in 2023 aimed at bringing government, at all levels, and the private sector together to tackle fraud, pursuit and punishment of fraudsters, providing more recognition/awareness of fraud and how to avoid it.

Lost Homes, Lost Hope. This paper, published by the Fraud Advisory Panel & Tenancy Fraud Forum in April 2023 uses previous research and current data to estimate the volume and cost of fraud in the social housing sector and the impact of this on local government.

8. The Public Sector Fraud Authority (Cabinet Office) estimated, in its 2023 ***Cross Government Fraud Landscape Report***, that fraud and error cost the public purse at least £33bn each year. The last time that any effective national fraud measurement took place in local government was in 2017 and at the time fraud loss alone was estimated at 2.4bn annually.
9. The Public Sector Fraud Authority (Cabinet Office), Department for Levelling Up, Housing and Communities (DLUHC), National Audit Office, and CIPFA all continue to issue advice, and best practice to support local councils in the fight to combat fraud and prevent loss to the public purse.
10. It is essential that the Council has in place a framework that recognises its fraud risks and invests sufficient resources prevent and deter fraud, including effective strategies and policies, and a response to deal with alleged fraud when required.
11. Stevenage Borough Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Since SAFS was established in 2015 this Committee and Senior Management Team have received reports about SAFS work with the Shared Internal Audit Service and all service areas across the Council.

Report Summary- 2023/24

12. This report includes a detailed account of all anti-fraud activity during 2023/24. It is important to note that the Council and SAFS work in close partnership and much of the work reported was undertaken or supported by Council officers.
13. The report reflect the Councils positive and robust approach to dealing with fraud, in its widest context, committed against the public funds it administers, This includes reactive and proactive activity and the use of technology and current best practice to prevent fraud occurring.
14. The reports indicates, in particular in the **Transparency Code Data** from **section 59** below, some high levels of fraud detected in year, this includes both fraud prevented/ deterred as well as monies actually lost to fraud. In reality the levels of fraud prevented are much greater than those lost and this should provide high levels of assurance that the Councils investment in counter-fraud is saving public money and delivering an effective return on investment.

Report - Delivery of the 2023/2024 Anti-Fraud Plan

The Plan

15. The Anti-Fraud Plan for 2023/24 was designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL), adopting the five 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue.
16. The Plan was developed to meet the Council needs based on known risks and a historic process in responding to these as well as any new and emerging risks. Resources and staffing were based on the Councils contribution to SAFS and an agreed work-plan of activity across the Council including both proactive and reactive projects.
17. The Plan **included** Key Performance Indicators (KPIs) for SAFS which were agreed with senior officers. KPI performance can be found at **Appendix A**.
18. Members will note this Committees role in ensuring that the Council meets its objectives to deter, prevent and pursue fraud.

Staffing & SAFS Performance

19. The SAFS Team (in April 2023) was composed of 23 accredited and trained counter fraud staff and is based at the Council's offices in Hertford.
20. Each SAFS Partner receives dedicated support and access to SAFS and for 2023/24 this was achieved by allocating a set number of 'operational' days that could be drawn on to deliver all parts of the Anti-Fraud Plan. This would include work on fraud-risk assessment, fraud awareness training, proactive work such as the use of data-analytics or reactive work as part of the Councils fraud response. Providing the service in this manner allows more flexibility and resilience for SAFS in how its officers deliver the different elements of the plan.
21. For 2023/24 SAFS planned to provide 450 operational days to deliver the Councils Anti-Fraud Plan as well as the programme of work agreed, this was supported the SAFS management team. We were only able to record 324 days due to issues with a new Case Management System (CMS) introduced in April 2023 and the need to re-train staff on time recording during Q1/Q2 due to those issues. By Q3 we were reporting the correct number of days and based on this we believe that the Council received its full allocation of days, however we are unable to use the CMS data to corroborate this,
22. All SAFS officers are all fully trained and accredited and members of the Government Counter Fraud Profession or working towards this. The Profession is made up of various streams including fraud awareness training, fraud risk assessment, investigations, intelligence, data-analytics, and investigation management.

Fraud Awareness and Prevention

23. A key objective for the Council is to develop its anti-fraud culture. The Council achieves this by ensuring senior managers and elected members consider the risk of fraud when developing new policies or processes; helping to prevent fraud occurring by having effective controls in place; deterring potential fraud through external communication and highlighting the checks the Council will undertake (asking for proof of ID or other evidence to support applications/claims) or actions that it has taken (prosecutions or investigations); encouraging all officers to report fraud where it is suspected.
24. The Council's Anti-Fraud and Corruption Strategy (and associated policies) can be found here [Anti-fraud and Corruption Strategy \(stevenage.gov.uk\)](https://www.stevenage.gov.uk/anti-fraud-and-corruption-strategy)
25. The council's website has links for the public to report fraud by email, telephone or using the SAFS online reporting tool. As well as encouraging the public to report any suspected fraud to the Council: [Reporting Fraud \(stevenage.gov.uk\)](https://www.stevenage.gov.uk/reporting-fraud) or directly to SAFS at www.hertfordshire.gov.uk/fraud.
26. Council staff can use the same methods to report fraud or they can report fraud directly to SAFS officers working on projects/cases for the Council or at workshops/ surgeries taking place at the Council offices.
27. SAFS delivered seven training sessions via face-to-face and virtual means during 2023/2024 including general fraud awareness and identity fraud. Training was also provided to members of the Audit Committee on the risk and impact of fraud on local councils. Further training was provided to Council officers on the services provided by National Anti-Fraud Service and National Fraud Initiative.
28. The Council's has an e-learning system and its modules for anti-fraud, anti-bribery, anti-money laundering are being developed with SAFS to promote as part of face-to-face awareness sessions.
29. SAFS receives weekly/monthly/ad-hoc updates on new fraud threats or alerts from a variety of sources including National Anti-Fraud Network (NAFN), National Cyber Security Centre (NCSC), National Intelligence Service (NATIS), City of London Police & National Fraud Intelligence Bureau, Credit Industry Fraud Avoidance Service (CIFAS).

Executive Reports

30. Executive Reports (ER) analyse specific fraud incidents, providing an insight into how the fraud materialised, and making recommendations to strengthen processes and controls to prevent further fraud. These reports evaluate current controls and mitigation measures, pinpointing potential vulnerabilities and limitations that could lead to fraud. SAFS accompanies each ER with a management action plan detailing recommendations and/or best practice to be adopted.

31. SAFS provided one ER for the Council in late 2022 regarding management of the Major Refurbishment Contract (MRC) for information only. This report was revisited in 2023/24 and in early 2024 a second ER was issued regarding the same contract.
32. To address fraud threats that are prevalent across all Partners, SAFS produces generic ER's which serve the collective interest. Three generic Executive Reports were shared with the Council in 2023/24, addressing the fraud risks within payroll, multiple employment, and the issuing of mayoral certificates/ letters of thanks/ appreciation.

Fraud Risk Assessments

33. Fraud Risk Assessment (FRA) constitutes a systematic evaluation of potential fraud risks within a council, designated service area, or particular scheme or process. SAFS outlined an FRA programme for the 2023/2024. This programme included FRA's focused on internal fraud risks, fraud risks within the procurement process, and recruitment. In 2023, SAFS released a generic assessment of the risk posed of undisclosed multiple employments (polygamous working) by agency staff.

Fraud Alerts

34. In 2023 SAFS introduced fraud alerts for our partners. These bimonthly fraud alerts provide officers with national and local intelligence to strengthen controls, and consider emerging and current fraud trends and threats. SAFS published five alerts in 2023/24 covering polygamous working, payroll fraud, money laundering and the rapidly developing threat of artificial intelligence used by fraudsters.
35. Complementing the bimonthly alerts are SAFS 'real time' fraud risk reports. These reports are circulated as soon as a significant risk is identified. In 2023/24 SAFS circulated five real time threat alerts which included internal fraud, cheque fraud, email account compromise and mandate fraud.



Fraud Alert December 2023 – January 2024

This report provides SAFS partners with the latest local and national fraud threats that local authorities have experienced over the last quarter. The purpose of the report is to provide council employees with relevant intelligence to assist protect, prevent and mitigate against continued and persistent threats, as well as new and emerging ones.

NOT FOR WIDER CIRCULATION WITHOUT CONSENT

Microsoft User Credential Compromise

A finance officer received an email from a company they recognised, which contained a hyper link. The email appeared legitimate, but unknown to the council, the company had suffered an ICT breach..

The hyperlink redirected the officer to a fake Google page which requested their Microsoft credentials. This fake Google page captured their credentials and immediately used them to access the employee's Microsoft account. This generated a multi factor authentication (MFA) prompt which the officer accepted believing it was a legitimate authentication.

The fraudster gained access to the officer's Office 365 account creating an email chain of communication with relevant officers within the authority, effectively approving a payment to a pension fund. The false email included a fake invoice and bank details for the transfer of 1.1 Million Euros, which was sent to the Treasury department from the compromised user.

Fortunately, the fraud was prevented when a very diligent officer in the Treasury Department identified that the bank details did not match previous transfers, and the request was queried.



Source: Powys County Council

SAFS Advice

- **ALWAYS** hover over an embedded hyperlink to reveal where it is redirecting you. If it does not appear correct do not click on it. Contact the sender immediately on a previously used and trusted email address.
- Check contracts to ensure third party companies are mandated to notify the LA of any ITC breaches experienced. Vary contracts if required.

Artificial Intelligence - Invoice Fraud

SAFS recognise that the threat posed by AI is evolving at a rapid pace. To ensure that our partners remain informed and prepared to address emerging threats, we are committed to regularly reporting on these developments. This will enable you to implement effective processes and controls to mitigate new and emerging fraud risks.



A cybercriminal group known as GXC Team specialises in crafting AI tools to create fraudulent invoices used in mandate/invoice fraud attacks. On December 30, they unveiled an updated version of their AI-powered tool, named "Business Invoice Swapper", which is available to purchase on the dark web. The tool works by using compromised email accounts, which are scanned to identify messages that either mention invoices or include attachments with payment details. Upon detection, the tool alters the banking information to that specified by the fraudster. The altered invoice is then either replaced in the original message or sent to a predetermined list of contacts.

The software's ability to modify invoices in real-time communication chains enhances the deception, which may cause officers to bypass procedures for verifying differences in bank account details, as the communication appears to be uninterrupted from the supplier.

It is important to note that the majority of the identified victim accounts were located in the United Kingdom and the European Union.

SAFS Advice

- **ALWAYS** follow process and procedure when managing requests for payment where bank details differ from those held.
- **REMEMBER, STOP, THINK, CHECK!**

Source: securityaffairs.com (<https://securityaffairs.com/156863/cyber-crime/artificial-intelligence-tool-for-invoice-fraud.html>)

Report Fraud

If you have a concern about fraud or wish to discuss these threats in more detail please contact us.



SAFS Hotline: 0300 123 4033

fraud.team@hertfordshire.gov.uk

www.hertfordshire.gov.uk/fraud

36. SAFS maintains a close working relationship with the Shared Internal Audit Service (SIAS) with both services exchanging knowledge and best practice. An excellent relationship has been built with the Council’s Legal Team, which is hosted by the County Council, for both civil and criminal litigation matters.

Reactive and Proactive Fraud Investigation

37. During 2023/2024 SAFS received 185 ‘referrals’ (allegations) of fraud affecting council services, a significant increase from the 132 in the previous 12 months, but still within the broad range of historical referrals and comparable to other SAFS Partners- but see s.38 below. Reporting of suspected fraud by staff and the public is good and indicates that staff know their fraud risks and when to report their suspicions and the public has confidence in reporting matters to the Council.

Table 1. Types of fraud being reported (in year):

Blue Badge Abuse	Housing Benefit/CTax Fraud	Housing Fraud	Payment and Mandate Fraud	Other	Total
7	86	84	4	4	185

**Other includes fraud that does not impact on the Council/ Grants/NDR etc.*

Table 2. Who is reporting fraud:

Staff	Public	Proactive	Other Agencies	Total
77	101	7	0	185

Table 3. Historic Fraud Referrals by Year



38. It should be emphasised that not every referral will need to be investigated as some can be false, misleading, or simply incorrect. Every referral received is risk assessed and sifted by the SAFS Intelligence Team to determine next steps. In total, 103 allegations received in 2023/24 were not selected for investigation. We

noted a large number of referrals about the same matter that were reported on multiple occasions and this has skewed the level of actual referral received.

Table 4. 'Failed' Referrals

Failed Sift	No Action Required	Referred to 3rd Party	SAFS Advice	Total
76	13	8	6	99

39. 'Failed Sift' is used where the allegation cannot be attributed to any service provided by the Council. 'No Action Required' are referrals where the subject can be identified but no error/fraud is apparent, or the Council is already aware of the facts reported in the allegation. Referrals that are passed to 3rd parties occurs where another agency, such as DWP or HMRC, is best placed to investigate the matter. 'SAFS Advice' is recorded when guidance/advice/support has been provided to Council officers, but a full investigation is not required to resolve the allegation.
40. In addition to the referrals that did not require an investigation 39 'low risk' cases were resolved through compliance activity, warning letters or review. This approach identified/prevented around £28k in council tax and housing benefit fraud.
41. We have been working very closely with the Council's communication team but internally to raise awareness of SAFS and externally to encourage local residents and businesses to report fraud and help protect public funds. The Council took part in the International Fraud Awareness Week each November 2023 and several county wide fraud awareness campaigns during the year.
42. At this time many cases raised for investigation last year are still live. However, of the 23 cases investigated and closed in the year, 11 identified fraud - with recoverable losses/savings combined of **£122k** reported. The volume of cases reduced from the previous year (see Table 5) as did the value of fraud identified. One of the reasons for this being the decision to deal with most matters reported at a lower level of intervention. Senior officers have been provided with a detailed breakdown of which services have been affected by fraud and the outcomes from individual investigations.
43. At year end of March 2024, 53 cases remained under investigation with an estimated fraud loss of £581k. These figures represent an increase in the number of live cases, with a significant increase in the value of estimated fraud under investigation (37 cases and an estimate of £190k loss in March 2023). SAFS monitor these figures to identify trends, such as changing working practices, the cost-of-living crisis or other factors.

Table 5. Fraud Investigations Closed by Year



44. In April 2023 the Fraud Advisory Panel (FAP) published a report 'Lost Homes-Lost Hope' following up from a paper published in 2021 by the Tenancy Fraud Forum 'Calculating Losses from Housing Tenancy Fraud', both papers were supported by CIPFA, CIFAS, the Cabinet Office and the Chartered Institute of Housing.
45. The 2021 report calculated the losses of an average housing fraud, per case, to the public purse to be in the region of £42k, for local authorities through the provision of temporary accommodation as a result of the fraud.
46. SAFS has been working across all areas of housing services for some years as we see 'tenancy fraud' as one of the Councils biggest risks. SAFS attend team and management meetings within Housing and the SAFS Mgt meet regularly with Housing Mgt to discuss risks, awareness and fraud reporting. SAFS have provided guidance to housing officers on existing processes and the approach to tenancy audits that will assist with the early detection of tenancy fraud.

Social Housing Fraud		
Category	National Average cost	Explanation
<i>Add:</i> Annual average temporary accommodation cost per family for individual councils	£12,100	Individual councils can establish their own local cost for this element. This can vary considerably, exceeding £20,000 pa in some areas. (The national average figure was derived from the parliamentary briefing paper <i>Households in temporary accommodation</i> , as at 31 March 2020.)
<i>Deduct:</i> Individual councils (only) can remove the annual average housing benefit associated with their temporary accommodation costs	Does not apply to the national calculation	Local councils receive housing benefit payments from central government in relation to temporary accommodation costs. These could be deducted from the national figure to reach a net local cost. However, since these benefit payments are from central government they must be part of the calculation of the true cost of tenancy fraud to the national public purse.
Subtotal	£12,100	
Subtotal above multiplied by 3	£36,300	Analysis of tenancy frauds detected by housing providers reveals three years to be a prudent average duration for one of these frauds. (Typical range 3.2 to 3.5 years.)
<i>Add:</i> Average investigation costs	£1,300	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample from other HA's and councils. Individual councils may choose to input their own data here.
<i>Add:</i> Average legal costs	£1,000	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data here.
<i>Add:</i> Average void costs	£3,140	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data.
Total costs	£41,740	The average cost of a detected tenancy fraud to the national public purse - approximated to £42,000.

47. The 84 cases of alleged tenancy fraud received in 2023/24 included illegal sub-letting, fraudulent housing applications, fraudulent Right to Buy (RTB) applications and undisclosed abandonments. As mentioned already not all cases require a full investigation and many can be resolved through routine housing management.
48. SAFS had a KPI target to recover or secure 12 properties as a result of our investigations in 2023/24. Although we were only able to assist in the recovery of 3 properties in-year (potentially saving the Council £132k) our work also identified fraud in 2 other cases (Housing Register and RTB) affecting housing services. A number of cases were pending recovery at year end. Two cases were serious enough that files have been shared with the Councils legal team with a view to consider criminal proceedings.
49. As part of the same KPI SAFS is required to conduct a review of all RTB applications to the Council receives to identify/prevent fraud and money-laundering. SAFS conducted 100% review of all applications received in 2023/24. In all SAFS reviewed 40 applications and one application was stopped due to fraud.
50. SAFS work with a number of social housing providers, including Clarion, Peabody and B3Living, to help identify fraud such as illegal sub-letting, fraudulent right-to-buy applications and other misuse of the social housing stock.
51. We work operationally with a number of partners locally and regionally to enhance our investigation capacity and outcomes. This includes joint working with the DWP where Housing Benefit (HB) and Council Tax (CTRS) fraud is linked to other national benefits. Hertfordshire LA's are leading the way in their approach to this often complex area of collaboration.

Data Matching and Analytics

52. The Council is required to submit data every two years as part of the Cabinet Office mandated [National Fraud Initiative - GOV.UK \(www.gov.uk\)](https://www.gov.uk). For the Council datasets such as payroll, pensions, creditor/payments, housing benefit and council tax are provided in October. The data collected from Councils, NHS and others is then analysed to identify discrepancies and potential fraud. The exercise also uses data from sources such as Operation Amberhill, HMRC, DWP and GRO.
53. The output, or 'matches', from NFI is released to Councils between February and March following the October data upload. These matches are shared in various formats for Councils to action. For the Council, SAFS and Internal Audit administer access to and reporting for those service areas that are required to provide a response.
54. The Council received 1,788 matches for review in a number of reports from the 2022/2023 exercise, compared to other similar SAFS Partners the number of matches is high but accounted for by additional housing/tenancy data. Many of these matches require administrative review only and will not identify fraud, error,

or savings, but it is essential that all are actioned and reported to avoid any fraud being missed and ensure that the Councils data is amended/updated.

55. SAFS and Council officers have reviewed a number of the high priority matches and some of the lower priority matches – in total 574 reviews were conducted identifying 66 errors/frauds, with reported loss/savings combined of **£385k**. a further 32 matches were still under review at year end and this, along with the high number of matches originally reported, highlight some concerns about the potential levels of fraud and error in the Council data that we will keep under review as we prepare for NFI 2024/25.
56. Working with the Cabinet Office, SAFS have developed a ‘Hertfordshire FraudHub’ for all SAFS Partners following the same process as the two-yearly NFI exercise, but with data collected and matched more frequently throughout the year. In 2023/2024 SAFS identified just over 6k potential matches for review, from these only 332 high risk matches were fully reviewed. SAFS are working closely with service managers to ensure the Council can provide an improved response to matches from the FraudHub in 2024/25.
57. The Councils Revenue and Benefits Service joined the County Council funded AnalyseLocal system that helps to identify potential fraud and error in the small business rate reduction (SBRR) scheme. In 2023/2024 out of 24 discrepancies, 13 had been reviewed identifying 8 errors. These 8 reviews identified additional revenue for collection of **£43k**.
58. SAFS manages the Hertfordshire Council Tax Framework for all councils across the County. The framework is funded by the County Council and provides a fully managed service to review discounts claimed by residents. The Councils Shared Revenue and Benefit Service made use of the Framework in 2023/2024 made use of the Framework in 2023/2024 to conduct a review of properties that were in receipt of a single person discount. After the review 348 discounts were removed (this is still subject to review at present) generating new council tax bills with a value of **£244k**

Transparency Code – Fraud Data

59. The Former Department for Communities and Local Government, now Department for Levelling-up Housing and Communities (DLUHC), published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.
60. The Code also recommends that local authorities follow guidance provided in the following reports/documents:

The National Fraud Strategy: *Fighting Fraud Together*
(<https://www.gov.uk/government/publications/nfa-fighting-fraud-together>)

CIPFA– *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption*
http://www.cipfa.org//media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf

61. The Code requires that Local Authorities publish the following data in relation to Fraud. The response for Stevenage Borough Council for 2023/24 is in **bold**:

- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

Nil. (Stevenage Borough Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and makes use of the National Anti-Fraud Network (NAFN) to conduct such enquiries on their behalf).

- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.

3 FTE

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.

3 FTE

- Total amount spent by the authority on the investigation and prosecution of fraud.

£174 (SAFS fee)+ NAFN/NFI/FraudHub license fees.

- Total number of fraud cases investigated.

26 Fraud cases investigated (23 closed and 53 still live)

62. In addition, the Code recommends that local authorities publish the following (for Stevenage Borough Council *Fraud/Irregularity are recorded together and not separated*):

- Total number of cases of irregularity investigated-

See above

- Total number of occasions on which a) fraud and b) irregularity was identified.

Not available at this time.

- Total monetary value of a) the fraud and b) the irregularity that was detected.

Reactive - £122k fraud loss/savings reported.

Proactive (NFI)- £385k

Proactive (CTax Review)- £244k

Proactive (SBRR Review) - £43K

Total - £794k of fraud and irregularity identified.

63. List of Background Papers - Local Government Act 1972, Section 100D

- (b) *Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)***
- (c) *Fighting Fraud and Corruption Locally - A Strategy for the 2020's (CIPFA/CIF9AS/LGA 2020)***
- (d) *Tackling Fraud in the Public Sector (CIPFA 2020)***
- (e) *Code of Practice - Managing the Risk of Fraud and Corruption (CIPFA 2014)***
- (f) *Fighting Fraud - Breaking the Chain (Report of Session 2022-2023 House of Lords)***
- (g) *HMG Fraud Strategy - Stopping Scams, Protecting the Public (May 2023)***
- (h) *Lost Homes, Lost Hope (Fraud Advisory Panel 2023)***

Appendix A. SAFS KPIs for 2023/2024 and Performance

KPI	Measure	Target 2023/24	Performance 2023/2024
1	Return on investment from SAFS Partnership.	<p>A. Meetings to take place with the Assistant Director of Finance, quarterly.</p> <p>B. Strategic Director (CFO) or deputy will attend SAFS Board meetings quarterly.</p> <p>C. Regular meetings to take place with Directors/Service Leads to agree and update local work plans.</p> <p>D. Reports on progress with any area of work covered by the SAFS Partnership Agreement will be provided on request.</p>	<p>A. Meetings were diarised with the Assistant Director of Finance and to review SAFS work and any issues arising.</p> <p>B. Strategic Director (CFO) sits on the SAFS Board and is attends quarterly meetings.</p> <p>C. SAFS Mgt meet with lead officers in Housing/Revs & Bens regularly and other services as required.</p> <p>D. Reports are provided to the Councils Audit Committee, senior officers, auditors and service managers as required.</p>
2	Provide an investigation service.	<p>A. 450 Days of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management (Supported by SAFS Intel/Management).</p> <p>B. 3 Reports to Audit Committee.</p> <p>C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings.</p>	<p>A. 324 (72%) days delivered.</p> <p>B. Reports to AC in September and December 2023 and March 2024.</p> <p>C. SAFS Mgt attend the Councils Corporate Governance Group (CGG) and Joint Action Group (JAG)</p>
3	Action on reported fraud.	<p>A. All urgent/ high risk cases 1 Day.</p> <p>B. All other cases 2 Days on Average.</p>	<p>A. SAFS CMS unable to report on these cases specifically.</p> <p>B. All referrals are cleared within 24 hours on average</p>
4	Added value of SAFS membership.	<p>A. Membership of NAFN & PNLD</p> <p>B. Membership of CIPFA Counter Fraud Centre and access to CIFAS/NCSC/AF/FFCL alerts/trends/best practice</p> <p>C. NAFN Access/Training for relevant Council Staff</p> <p>D. 10 Training events for staff/Members in year. (To be agreed with Directors/ Service leads and HR)</p>	<p>A. SAFS funds the Councils licences with PNLD and NAFN.</p> <p>B. SAFS had access to CIPFA CF services in-year, and all other planned licences.</p> <p>C. NAFN access for all SAFS and Council staff.</p> <p>D. 9+ Training events delivered across a number of service areas and for members of the FARC.</p>
5	Allegations of fraud received. & Success rates for cases investigated.	<p>A. All reported fraud (referrals) will be logged and reported to officers by type & source.</p> <p>B. All cases investigated will be recorded and the financial value, including loss/recovery/savings of each will be reported to officers.</p> <p>C. 12 Social homes secured from unlawful use.</p> <p>D. 100% Review of all Right to Buy and 'Succession' applications.</p>	<p>A. This is happening daily as referrals received.</p> <p>B. All cases are logged, managed, and reported on SAFS case management system (CMS) and all reports use the data from the CMS.</p> <p>C. Only 3 Properties were recovered in year (+1 RTB and 1 housing application)</p> <p>D. 100% Review of all RTB and Succession Applications was provided.,</p>
6	Making better use of data to prevent/identify fraud.	<p>A. Support the output from NFI 2022/23 Council services.</p> <p>B. Membership of the Herts FraudHub in 2023/24</p>	<p>A. SAFS and Council officers worked on the output from NFI. See report for more detail.</p> <p>B. This includes work to review live NDR/SBRR data held by the Council and the Herts FraudHub.</p>



Stevenage Borough Council

Audit Committee

September 2024

Anti-Fraud Report 2023/24

Purpose

1. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.
2. The Chartered Institute for Public Finance and Accountancy publicised its *Code of Practice on Managing the Risk of Fraud and Corruption* in 2014.
3. In March 2023, this committee approved the Anti-Fraud Plan for following 12 months which was developed with the Council's senior officers in partnership with SAFS. A copy of the Plan can be found here:

[Agenda for Audit Committee on Monday, 27 March 2023, 6.00pm \(stevenage.gov.uk\)](#)

4. This report provides details of the work undertaken by the Council and the Shared Anti-Fraud Service to protect the Council against the threat of fraud and the delivery of the Council's Anti-Fraud Plan for 2023/2024.

Recommendations

5. **Members are RECOMMENDED to:**
 - a) **Note the activity undertaken by the Shared Anti-Fraud Service (SAFS) to deliver the 2023/2024 Anti-Fraud Plan for the Council.**
 - b) **Note all Anti-fraud activity undertaken by Council Officers and SAFS to protect the Council and the public funds it administers.**

Background

6. National reports and alerts continue to be used by the Shared Anti-Fraud Service (SAFS) to ensure that the Council is kept up to date of all new and emerging fraud threats. This helps to mitigate or manage the Council's fraud risks through a programme of work including the Anti-Fraud Plan. Details of these reports, along with other recommended reading for Members, can be found below and at **Section 63** of this report.
7. Some of the most significant recent reports include:

Fighting Fraud and Corruption Locally a Strategy for the 2020's. This strategy focuses on the governance and 'ownership' of anti-fraud and corruption arrangements. The Strategy also identifies areas of best practice and includes a 'Checklist' to compare against actions taken by the Council to deter/prevent/investigate fraud. The checklist is maintained and reviewed by SAFS and officers.

UK Fraud Strategy 'Stopping Scams and Protecting the Public. The Government launched its latest anti-fraud strategy in 2023 aimed at bringing government, at all levels, and the private sector together to tackle fraud, pursuit and punishment of fraudsters, providing more recognition/awareness of fraud and how to avoid it.

Lost Homes, Lost Hope. This paper, published by the Fraud Advisory Panel & Tenancy Fraud Forum in April 2023 uses previous research and current data to estimate the volume and cost of fraud in the social housing sector and the impact of this on local government.

8. The Public Sector Fraud Authority (Cabinet Office) estimated, in its 2023 ***Cross Government Fraud Landscape Report***, that fraud and error cost the public purse at least £33bn each year. The last time that any effective national fraud measurement took place in local government was in 2017 and at the time fraud loss alone was estimated at 2.4bn annually.
9. The Public Sector Fraud Authority (Cabinet Office), Department for Levelling Up, Housing and Communities (DLUHC), National Audit Office, and CIPFA all continue to issue advice, and best practice to support local councils in the fight to combat fraud and prevent loss to the public purse.
10. It is essential that the Council has in place a framework that recognises its fraud risks and invests sufficient resources prevent and deter fraud, including effective strategies and policies, and a response to deal with alleged fraud when required.
11. Stevenage Borough Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Since SAFS was established in 2015 this Committee and Senior Management Team have received reports about SAFS work with the Shared Internal Audit Service and all service areas across the Council.

Report Summary- 2023/24

12. This report includes a detailed account of all anti-fraud activity during 2023/24. It is important to note that the Council and SAFS work in close partnership and much of the work reported was undertaken or supported by Council officers.
13. The report reflect the Councils positive and robust approach to dealing with fraud, in its widest context, committed against the public funds it administers, This includes reactive and proactive activity and the use of technology and current best practice to prevent fraud occurring.
14. The reports indicates, in particular in the **Transparency Code Data** from **section 59** below, some high levels of fraud detected in year, this includes both fraud prevented/ deterred as well as monies actually lost to fraud. In reality the levels of fraud prevented are much greater than those lost and this should provide high levels of assurance that the Councils investment in counter-fraud is saving public money and delivering an effective return on investment.

Report - Delivery of the 2023/2024 Anti-Fraud Plan

The Plan

15. The Anti-Fraud Plan for 2023/24 was designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL), adopting the five 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue.
16. The Plan was developed to meet the Council needs based on known risks and a historic process in responding to these as well as any new and emerging risks. Resources and staffing were based on the Council's contribution to SAFS and an agreed work-plan of activity across the Council including both proactive and reactive projects.
17. The Plan **included** Key Performance Indicators (KPIs) for SAFS which were agreed with senior officers. KPI performance can be found at **Appendix A**.
18. Members will note this Committee's role in ensuring that the Council meets its objectives to deter, prevent and pursue fraud.

Staffing & SAFS Performance

19. The SAFS Team (in April 2023) was composed of 23 accredited and trained counter fraud staff and is based at the Council's offices in Hertford.
20. Each SAFS Partner receives dedicated support and access to SAFS and for 2023/24 this was achieved by allocating a set number of 'operational' days that could be drawn on to deliver all parts of the Anti-Fraud Plan. This would include work on fraud-risk assessment, fraud awareness training, proactive work such as the use of data-analytics or reactive work as part of the Council's fraud response. Providing the service in this manner allows more flexibility and resilience for SAFS in how its officers deliver the different elements of the plan.
21. For 2023/24 SAFS planned to provide 450 operational days to deliver the Council's Anti-Fraud Plan as well as the programme of work agreed, this was supported by the SAFS management team. We were only able to record 324 days due to issues with a new Case Management System (CMS) introduced in April 2023 and the need to re-train staff on time recording during Q1/Q2 due to those issues. By Q3 we were reporting the correct number of days and based on this we believe that the Council received its full allocation of days, however we are unable to use the CMS data to corroborate this,
22. All SAFS officers are all fully trained and accredited and members of the Government Counter Fraud Profession or working towards this. The Profession is made up of various streams including fraud awareness training, fraud risk assessment, investigations, intelligence, data-analytics, and investigation management.

Fraud Awareness and Prevention

23. A key objective for the Council is to develop its anti-fraud culture. The Council achieves this by ensuring senior managers and elected members consider the risk of fraud when developing new policies or processes; helping to prevent fraud occurring by having effective controls in place; deterring potential fraud through external communication and highlighting the checks the Council will undertake (asking for proof of ID or other evidence to support applications/claims) or actions that it has taken (prosecutions or investigations); encouraging all officers to report fraud where it is suspected.
24. The Council's Anti-Fraud and Corruption Strategy (and associated policies) can be found here [Anti-fraud and Corruption Strategy \(stevenage.gov.uk\)](https://www.stevenage.gov.uk/anti-fraud-and-corruption-strategy)
25. The council's website has links for the public to report fraud by email, telephone or using the SAFS online reporting tool. As well as encouraging the public to report any suspected fraud to the Council: [Reporting Fraud \(stevenage.gov.uk\)](https://www.stevenage.gov.uk/reporting-fraud) or directly to SAFS at www.hertfordshire.gov.uk/fraud.
26. Council staff can use the same methods to report fraud or they can report fraud directly to SAFS officers working on projects/cases for the Council or at workshops/ surgeries taking place at the Council offices.
27. SAFS delivered seven training sessions via face-to-face and virtual means during 2023/2024 including general fraud awareness and identity fraud. Training was also provided to members of the Audit Committee on the risk and impact of fraud on local councils. Further training was provided to Council officers on the services provided by National Anti-Fraud Service and National Fraud Initiative.
28. The Council's has an e-learning system and its modules for anti-fraud, anti-bribery, anti-money laundering are being developed with SAFS to promote as part of face-to-face awareness sessions.
29. SAFS receives weekly/monthly/ad-hoc updates on new fraud threats or alerts from a variety of sources including National Anti-Fraud Network (NAFN), National Cyber Security Centre (NCSC), National Intelligence Service (NATIS), City of London Police & National Fraud Intelligence Bureau, Credit Industry Fraud Avoidance Service (CIFAS).

Executive Reports

30. Executive Reports (ER) analyse specific fraud incidents, providing an insight into how the fraud materialised, and making recommendations to strengthen processes and controls to prevent further fraud. These reports evaluate current controls and mitigation measures, pinpointing potential vulnerabilities and limitations that could lead to fraud. SAFS accompanies each ER with a management action plan detailing recommendations and/or best practice to be adopted.

31. SAFS provided one ER for the Council in late 2022 regarding management of the Major Refurbishment Contract (MRC) for information only. This report was revisited in 2023/24 and in early 2024 a second ER was issued regarding the same contract.
32. To address fraud threats that are prevalent across all Partners, SAFS produces generic ER's which serve the collective interest. Three generic Executive Reports were shared with the Council in 2023/24, addressing the fraud risks within payroll, multiple employment, and the issuing of mayoral certificates/ letters of thanks/ appreciation.

Fraud Risk Assessments

33. Fraud Risk Assessment (FRA) constitutes a systematic evaluation of potential fraud risks within a council, designated service area, or particular scheme or process. SAFS outlined an FRA programme for the 2023/2024. This programme included FRA's focused on internal fraud risks, fraud risks within the procurement process, and recruitment. In 2023, SAFS released a generic assessment of the risk posed of undisclosed multiple employments (polygamous working) by agency staff.

Fraud Alerts

34. In 2023 SAFS introduced fraud alerts for our partners. These bimonthly fraud alerts provide officers with national and local intelligence to strengthen controls, and consider emerging and current fraud trends and threats. SAFS published five alerts in 2023/24 covering polygamous working, payroll fraud, money laundering and the rapidly developing threat of artificial intelligence used by fraudsters.
35. Complementing the bimonthly alerts are SAFS 'real time' fraud risk reports. These reports are circulated as soon as a significant risk is identified. In 2023/24 SAFS circulated five real time threat alerts which included internal fraud, cheque fraud, email account compromise and mandate fraud.

Fraud Alert December 2023 – January 2024

This report provides SAFS partners with the latest local and national fraud threats that local authorities have experienced over the last quarter. The purpose of the report is to provide council employees with relevant intelligence to assist protect, prevent and mitigate against continued and persistent threats, as well as new and emerging ones.

NOT FOR WIDER CIRCULATION WITHOUT CONSENT

Microsoft User Credential Compromise

A finance officer received an email from a company they recognised, which contained a hyper link. The email appeared legitimate, but unknown to the council, the company had suffered an ICT breach..

The hyperlink redirected the officer to a fake Google page which requested their Microsoft credentials. This fake Google page captured their credentials and immediately used them to access the employees Microsoft account. This generated a multi factor authentication (MFA) prompt which the officer accepted believing it was a legitimate authentication.

The fraudster gained access the officers Office 365 account creating an email chain of communication with relevant officers within the authority, effectively approving a payment to a pension fund. The false email included a fake invoice and bank details for the transfer of 1.1 Million Euros, which was sent to the Treasury department from the compromised user.

Fortunately, the fraud was prevented when a very diligent officer in the Treasury Department identified that the bank details did not match previous transfers, and the request was queried.



Source: Powys County Council

SAFS Advice

- **ALWAYS** hover over an embedded hyperlink to reveal where it is redirecting you. If it does not appear correct do not click on it. Contact the sender immediately on a previously used and trusted email address.
- Check contracts to ensure third party companies are mandated to notify the LA of any ITC breaches experienced. Vary contracts if required.

Artificial Intelligence - Invoice Fraud

SAFS recognise that the threat posed by AI is evolving at a rapid pace. To ensure that our partners remain informed and prepared to address emerging threats, we are committed to regularly reporting on these developments. This will enable you to implement effective processes and controls to mitigate new and emerging fraud risks.



A cybercriminal group known as GXC Team specialises in crafting AI tools to create fraudulent invoices used in mandate/invoice fraud attacks. On December 30, they unveiled an updated version of their AI-powered tool, named "Business Invoice Swapper", which is available to purchase on the dark web. The tool works by using compromised email accounts, which are scanned to identify messages that either mention invoices or include attachments with payment details. Upon detection, the tool alters the banking information to that specified by the fraudster. The altered invoice is then either replaced in the original message or sent to a predetermined list of contacts.

The software's ability to modify invoices in real-time communication chains enhances the deception, which may cause officers to bypass procedures for verifying differences in bank account details, as the communication appears to be uninterrupted from the supplier.

It is important to note that the majority of the identified victim accounts were located in the United Kingdom and the European Union.

SAFS Advice

- **ALWAYS** follow process and procedure when managing requests for payment where bank details differ from those held.
- **REMEMBER, STOP, THINK, CHECK!**

Source: securityaffairs.com (<https://securityaffairs.com/156863/cyber-crime/artificial-intelligence-tool-for-invoice-fraud.html>)

Report Fraud

If you have a concern about fraud or wish to discuss these threats in more detail please contact us.



SAFS Hotline: 0300 123 4033

fraud.team@hertfordshire.gov.uk

www.hertfordshire.gov.uk/fraud

36. SAFS maintains a close working relationship with the Shared Internal Audit Service (SIAS) with both services exchanging knowledge and best practice. An excellent relationship has been built with the Council’s Legal Team, which is hosted by the County Council, for both civil and criminal litigation matters.

Reactive and Proactive Fraud Investigation

37. During 2023/2024 SAFS received 185 ‘referrals’ (allegations) of fraud affecting council services, a significant increase from the 132 in the previous 12 months, but still within the broad range of historical referrals and comparable to other SAFS Partners- but see s.38 below. Reporting of suspected fraud by staff and the public is good and indicates that staff know their fraud risks and when to report their suspicions and the public has confidence in reporting matters to the Council.

Table 1. Types of fraud being reported (in year):

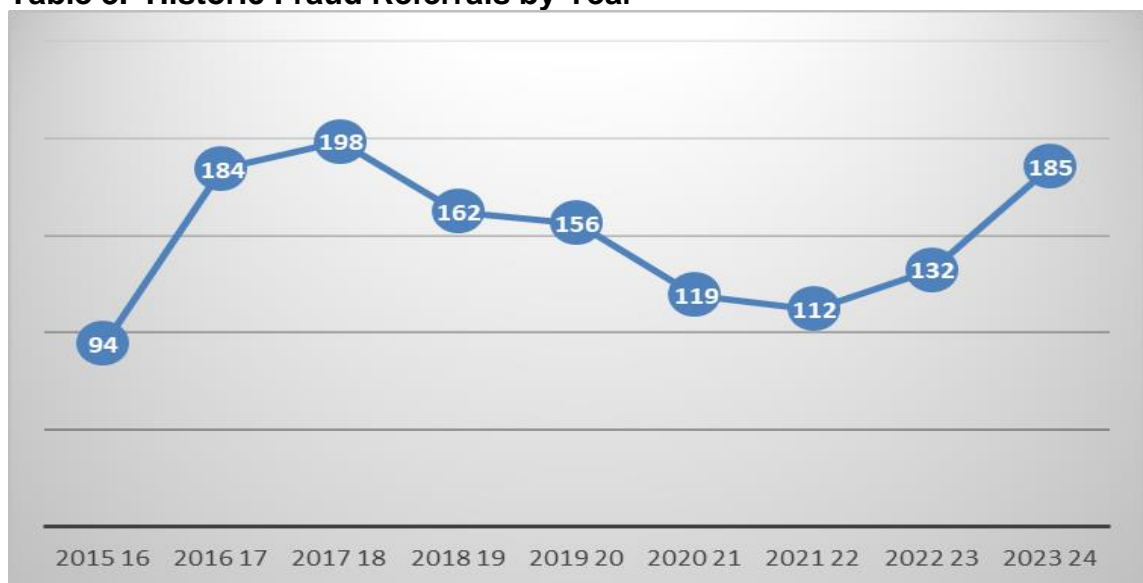
Blue Badge Abuse	Housing Benefit/CTax Fraud	Housing Fraud	Payment and Mandate Fraud	Other	Total
7	86	84	4	4	185

**Other includes fraud that does not impact on the Council/ Grants/NDR etc.*

Table 2. Who is reporting fraud:

Staff	Public	Proactive	Other Agencies	Total
77	101	7	0	185

Table 3. Historic Fraud Referrals by Year



38. It should be emphasised that not every referral will need to be investigated as some can be false, misleading, or simply incorrect. Every referral received is risk assessed and sifted by the SAFS Intelligence Team to determine next steps. In total, 103 allegations received in 2023/24 were not selected for investigation. We

noted a large number of referrals about the same matter that were reported on multiple occasions and this has skewed the level of actual referral received.

Table 4. 'Failed' Referrals

Failed Sift	No Action Required	Referred to 3rd Party	SAFS Advice	Total
76	13	8	6	99

39. 'Failed Sift' is used where the allegation cannot be attributed to any service provided by the Council. 'No Action Required' are referrals where the subject can be identified but no error/fraud is apparent, or the Council is already aware of the facts reported in the allegation. Referrals that are passed to 3rd parties occurs where another agency, such as DWP or HMRC, is best placed to investigate the matter. 'SAFS Advice' is recorded when guidance/advice/support has been provided to Council officers, but a full investigation is not required to resolve the allegation.
40. In addition to the referrals that did not require an investigation 39 'low risk' cases were resolved through compliance activity, warning letters or review. This approach identified/prevented around £28k in council tax and housing benefit fraud.
41. We have been working very closely with the Council's communication team but internally to raise awareness of SAFS and externally to encourage local residents and businesses to report fraud and help protect public funds. The Council took part in the International Fraud Awareness Week each November 2023 and several county wide fraud awareness campaigns during the year.
42. At this time many cases raised for investigation last year are still live. However, of the 23 cases investigated and closed in the year, 11 identified fraud - with recoverable losses/savings combined of **£122k** reported. The volume of cases reduced from the previous year (see Table 5) as did the value of fraud identified. One of the reasons for this being the decision to deal with most matters reported at a lower level of intervention. Senior officers have been provided with a detailed breakdown of which services have been affected by fraud and the outcomes from individual investigations.
43. At year end of March 2024, 53 cases remained under investigation with an estimated fraud loss of £581k. These figures represent an increase in the number of live cases, with a significant increase in the value of estimated fraud under investigation (37 cases and an estimate of £190k loss in March 2023). SAFS monitor these figures to identify trends, such as changing working practices, the cost-of-living crisis or other factors.

Table 5. Fraud Investigations Closed by Year



44. In April 2023 the Fraud Advisory Panel (FAP) published a report 'Lost Homes-Lost Hope' following up from a paper published in 2021 by the Tenancy Fraud Forum 'Calculating Losses from Housing Tenancy Fraud', both papers were supported by CIPFA, CIFAS, the Cabinet Office and the Chartered Institute of Housing.
45. The 2021 report calculated the losses of an average housing fraud, per case, to the public purse to be in the region of £42k, for local authorities through the provision of temporary accommodation as a result of the fraud.
46. SAFS has been working across all areas of housing services for some years as we see 'tenancy fraud' as one of the Councils biggest risks. SAFS attend team and management meetings within Housing and the SAFS Mgt meet regularly with Housing Mgt to discuss risks, awareness and fraud reporting. SAFS have provided guidance to housing officers on existing processes and the approach to tenancy audits that will assist with the early detection of tenancy fraud.

Social Housing Fraud		
Category	National Average cost	Explanation
<i>Add:</i> Annual average temporary accommodation cost per family for individual councils	£12,100	Individual councils can establish their own local cost for this element. This can vary considerably, exceeding £20,000 pa in some areas. (The national average figure was derived from the parliamentary briefing paper <i>Households in temporary accommodation</i> , as at 31 March 2020.)
<i>Deduct:</i> Individual councils (only) can remove the annual average housing benefit associated with their temporary accommodation costs	Does not apply to the national calculation	Local councils receive housing benefit payments from central government in relation to temporary accommodation costs. These could be deducted from the national figure to reach a net local cost. However, since these benefit payments are from central government they must be part of the calculation of the true cost of tenancy fraud to the national public purse.
Subtotal	£12,100	
Subtotal above multiplied by 3	£36,300	Analysis of tenancy frauds detected by housing providers reveals three years to be a prudent average duration for one of these frauds. (Typical range 3.2 to 3.5 years.)
<i>Add:</i> Average investigation costs	£1,300	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample from other HA's and councils. Individual councils may choose to input their own data here.
<i>Add:</i> Average legal costs	£1,000	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data here.
<i>Add:</i> Average void costs	£3,140	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data.
Total costs	£41,740	The average cost of a detected tenancy fraud to the national public purse - approximated to £42,000.

47. The 84 cases of alleged tenancy fraud received in 2023/24 included illegal sub-letting, fraudulent housing applications, fraudulent Right to Buy (RTB) applications and undisclosed abandonments. As mentioned already not all cases require a full investigation and many can be resolved through routine housing management.
48. SAFS had a KPI target to recover or secure 12 properties as a result of our investigations in 2023/24. Although we were only able to assist in the recovery of 3 properties in-year (potentially saving the Council £132k) our work also identified fraud in 2 other cases (Housing Register and RTB) affecting housing services. A number of cases were pending recovery at year end. Two cases were serious enough that files have been shared with the Councils legal team with a view to consider criminal proceedings.
49. As part of the same KPI SAFS is required to conduct a review of all RTB applications to the Council receives to identify/prevent fraud and money-laundering. SAFS conducted 100% review of all applications received in 2023/24. In all SAFS reviewed 40 applications and one application was stopped due to fraud.
50. SAFS work with a number of social housing providers, including Clarion, Peabody and B3Living, to help identify fraud such as illegal sub-letting, fraudulent right-to-buy applications and other misuse of the social housing stock.
51. We work operationally with a number of partners locally and regionally to enhance our investigation capacity and outcomes. This includes joint working with the DWP where Housing Benefit (HB) and Council Tax (CTRS) fraud is linked to other national benefits. Hertfordshire LA's are leading the way in their approach to this often complex area of collaboration.

Data Matching and Analytics

52. The Council is required to submit data every two years as part of the Cabinet Office mandated [National Fraud Initiative - GOV.UK \(www.gov.uk\)](https://www.gov.uk/national-fraud-initiative). For the Council datasets such as payroll, pensions, creditor/payments, housing benefit and council tax are provided in October. The data collected from Councils, NHS and others is then analysed to identify discrepancies and potential fraud. The exercise also uses data from sources such as Operation Amberhill, HMRC, DWP and GRO.
53. The output, or 'matches', from NFI is released to Councils between February and March following the October data upload. These matches are shared in various formats for Councils to action. For the Council, SAFS and Internal Audit administer access to and reporting for those service areas that are required to provide a response.
54. The Council received 1,788 matches for review in a number of reports from the 2022/2023 exercise, compared to other similar SAFS Partners the number of matches is high but accounted for by additional housing/tenancy data. Many of these matches require administrative review only and will not identify fraud, error,

or savings, but it is essential that all are actioned and reported to avoid any fraud being missed and ensure that the Councils data is amended/updated.

55. SAFS and Council officers have reviewed a number of the high priority matches and some of the lower priority matches – in total 574 reviews were conducted identifying 66 errors/frauds, with reported loss/savings combined of **£385k**. a further 32 matches were still under review at year end and this, along with the high number of matches originally reported, highlight some concerns about the potential levels of fraud and error in the Council data that we will keep under review as we prepare for NFI 2024/25.
56. Working with the Cabinet Office, SAFS have developed a ‘Hertfordshire FraudHub’ for all SAFS Partners following the same process as the two-yearly NFI exercise, but with data collected and matched more frequently throughout the year. In 2023/2024 SAFS identified just over 6k potential matches for review, from these only 332 high risk matches were fully reviewed. SAFS are working closely with service managers to ensure the Council can provide an improved response to matches from the FraudHub in 2024/25.
57. The Councils Revenue and Benefits Service joined the County Council funded AnalyseLocal system that helps to identify potential fraud and error in the small business rate reduction (SBRR) scheme. In 2023/2024 out of 24 discrepancies, 13 had been reviewed identifying 8 errors. These 8 reviews identified additional revenue for collection of **£43k**.
58. SAFS manages the Hertfordshire Council Tax Framework for all councils across the County. The framework is funded by the County Council and provides a fully managed service to review discounts claimed by residents. The Councils Shared Revenue and Benefit Service made use of the Framework in 2023/2024 made use of the Framework in 2023/2024 to conduct a review of properties that were in receipt of a single person discount. After the review 348 discounts were removed (this is still subject to review at present) generating new council tax bills with a value of **£244k**

Transparency Code – Fraud Data

59. The Former Department for Communities and Local Government, now Department for Levelling-up Housing and Communities (DLUHC), published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.
60. The Code also recommends that local authorities follow guidance provided in the following reports/documents:

The National Fraud Strategy: *Fighting Fraud Together*
(<https://www.gov.uk/government/publications/nfa-fighting-fraud-together>)

CIPFA– *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption*
http://www.cipfa.org//media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf

61. The Code requires that Local Authorities publish the following data in relation to Fraud. The response for Stevenage Borough Council for 2023/24 is in **bold**:

- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

Nil. (Stevenage Borough Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and makes use of the National Anti-Fraud Network (NAFN) to conduct such enquiries on their behalf).

- Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.

3 FTE

- Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.

3 FTE

- Total amount spent by the authority on the investigation and prosecution of fraud.

£174 (SAFS fee)+ NAFN/NFI/FraudHub license fees.

- Total number of fraud cases investigated.

26 Fraud cases investigated (23 closed and 53 still live)

62. In addition, the Code recommends that local authorities publish the following (for Stevenage Borough Council *Fraud/Irregularity are recorded together and not separated*):

- Total number of cases of irregularity investigated-

See above

- Total number of occasions on which a) fraud and b) irregularity was identified.

Not available at this time.

- Total monetary value of a) the fraud and b) the irregularity that was detected.

Reactive - £122k fraud loss/savings reported.

Proactive (NFI)- £385k

Proactive (CTax Review)- £244k

Proactive (SBRR Review) - £43K

Total - £794k of fraud and irregularity identified.

63. List of Background Papers - Local Government Act 1972, Section 100D

- (b) *Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)***
- (c) *Fighting Fraud and Corruption Locally - A Strategy for the 2020's (CIPFA/CIF9AS/LGA 2020)***
- (d) *Tackling Fraud in the Public Sector (CIPFA 2020)***
- (e) *Code of Practice - Managing the Risk of Fraud and Corruption (CIPFA 2014)***
- (f) *Fighting Fraud - Breaking the Chain (Report of Session 2022-2023 House of Lords)***
- (g) *HMG Fraud Strategy - Stopping Scams, Protecting the Public (May 2023)***
- (h) *Lost Homes, Lost Hope (Fraud Advisory Panel 2023)***

Appendix A. SAFS KPIs for 2023/2024 and Performance

KPI	Measure	Target 2023/24	Performance 2023/2024
1	Return on investment from SAFS Partnership.	<ul style="list-style-type: none"> A. Meetings to take place with the Assistant Director of Finance, quarterly. B. Strategic Director (CFO) or deputy will attend SAFS Board meetings quarterly. C. Regular meetings to take place with Directors/Service Leads to agree and update local work plans. D. Reports on progress with any area of work covered by the SAFS Partnership Agreement will be provided on request. 	<ul style="list-style-type: none"> A. Meetings were diarised with the Assistant Director of Finance and to review SAFS work and any issues arising. B. Strategic Director (CFO) sits on the SAFS Board and is attends quarterly meetings. C. SAFS Mgt meet with lead officers in Housing/Revs & Bens regularly and other services as required. D. Reports are provided to the Councils Audit Committee, senior officers, auditors and service managers as required.
2	Provide an investigation service.	<ul style="list-style-type: none"> A. 450 Days of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management (Supported by SAFS Intel/Management). B. 3 Reports to Audit Committee. C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings. 	<ul style="list-style-type: none"> A. 324 (72%) days delivered. B. Reports to AC in September and December 2023 and March 2024. C. SAFS Mgt attend the Councils Corporate Governance Group (CGG) and Joint Action Group (JAG)
3	Action on reported fraud.	<ul style="list-style-type: none"> A. All urgent/ high risk cases 1 Day. B. All other cases 2 Days on Average. 	<ul style="list-style-type: none"> A. SAFS CMS unable to report on these cases specifically. B. All referrals are cleared within 24 hours on average
4	Added value of SAFS membership.	<ul style="list-style-type: none"> A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre and access to CIFAS/NCSC/AF/FFCL alerts/trends/best practice C. NAFN Access/Training for relevant Council Staff D. 10 Training events for staff/Members in year. (To be agreed with Directors/ Service leads and HR) 	<ul style="list-style-type: none"> A. SAFS funds the Councils licences with PNLD and NAFN. B. SAFS had access to CIPFA CF services in-year, and all other planned licences. C. NAFN access for all SAFS and Council staff. D. 9+ Training events delivered across a number of service areas and for members of the FARC.
5	Allegations of fraud received. & Success rates for cases investigated.	<ul style="list-style-type: none"> A. All reported fraud (referrals) will be logged and reported to officers by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/savings of each will be reported to officers. C. 12 Social homes secured from unlawful use. D. 100% Review of all Right to Buy and 'Succession' applications. 	<ul style="list-style-type: none"> A. This is happening daily as referrals received. B. All cases are logged, managed, and reported on SAFS case management system (CMS) and all reports use the data from the CMS. C. Only 3 Properties were recovered in year (+1 RTB and 1 housing application) D. 100% Review of all RTB and Succession Applications was provided.,
6	Making better use of data to prevent/identify fraud.	<ul style="list-style-type: none"> A. Support the output from NFI 2022/23 Council services. B. Membership of the Herts FraudHub in 2023/24 	<ul style="list-style-type: none"> A. SAFS and Council officers worked on the output from NFI. See report for more detail. B. This includes work to review live NDR/SBRR data held by the Council and the Herts FraudHub.



Stevenage Borough Council

Audit Committee

September 2024

Anti-Fraud Progress Report 2024/2025

Purpose

1. This early report provides details of the work undertaken by the Shared Anti-Fraud Service and Council Officers to protect the Council against the threat of fraud and the delivery of the Council's Anti-Fraud Action Plan for 2024/25.
2. Further reports will be provided to this Committee in 2024/25 with detailed progress with delivery of the agreed Plan and SAFS KPI performance.

Recommendations

3. **Members are RECOMMENDED to:**

- a) **Note the progress by officers and the Shared Anti-Fraud Service to deliver the Anti-Fraud Plan for the Council.**

Delivery of the Anti-Fraud Plan

4. The 2024/2025 Anti-Fraud Plan was approved by this Committee at its March 2024 meeting ([Public Pack](#))[Agenda Document for Audit Committee, 26/03/2024 18:00 \(stevenage.gov.uk\)](#). This Plan covers all areas recommended by CIPFA and the *Fighting Fraud and Locally Strategy for the 2020s*. The Plan also provides assurance that the council continues to benefit from a positive return on its investment in the SAFS Partnership.

2024/2025 Anti-Fraud Activity

5. The Council has in place Anti-Fraud, Bribery & Corruption Policies and these are kept under constant review to ensure compliance with current best practice and the impact of any changes required by legislation.
6. SAFS provided alerts on new and emerging fraud trends through its Board members and directly with officers working in our Partners. These alerts come from a variety of sources including the National Anti-Fraud Network (NAFN), Credit Industry Fraud Avoidance Service (CIFAS), National Fraud Intelligence Bureau (NFIB) at the City of London Police, and others.
7. Between April and August this year SFAS issued 20 Urgent Fraud Alerts including impersonation/ push payments/ payment diversion/ false identified used in various application frauds. SAFS also provide regular Fraud Threat Reports that summarise new and emerging risks and provide officers on guidance around the identification of these and prevention. SAFS issued three of these reports so far this year focused on Multiple Employment fraud, ID fraud, 'Overpayment' linked to money laundering, and MS account take-over.
8. A training plan to build on staff awareness and fraud reporting, along with a publicity campaign to inform the public and encourage fraud reporting has been developed with officers in HR and Comms teams. Five specialised training events (including ID fraud, & BB abuse) have already been delivered, and we have further sessions planned for September on contract/bid-rigging & housing fraud along with fraud awareness for Members.

9. Between April and end of August, a further 58 allegations of fraud have been received by the Council/SAFS including Housing, Council Tax and Blue Badge abuse. Referrals from staff have increased from last year, which indicates our recent awareness sessions have had a positive effect. SAFS currently have 53 cases under investigation, or at referral (29) stage, with an estimated fraud loss of £1.1m.
10. Twelve investigations have been closed and fraud losses/savings identified in three cases- with fraud in excess of £16k actually reported across all cases. SAFS have also conducted 22 reviews of low value council tax frauds identifying reporting £6k fraud in the Council Tax Reduction Scheme.
11. SAFS and Council officers are currently preparing to take part in the main National Fraud Initiative (NFI) exercise for 2024/25. The Cabinet Office are providing guidance on data specification and timescales for data uploads in October with the output from this expected in January 2024.
12. The Council is signed up the Herts Fraudhub for 24/25. The FraudHub this works in a similar fashion to the main NFI exercise with data being submitted along with the other 7 partners in the SAFS Partnership for review to help identify fraud. In Q1 all agreed datasets were successfully uploaded and some data is already submitted for Q2. So far this has identified 1.2k records for review, SAFS and Council officers are reviewing these at present, with a small number of frauds/discrepancies already identified and £4k in fraud prevented.
13. SAFS continues to focus its large part of its work for Stevenage Council on allegations of 'tenancy-fraud' committed against the Council's housing stock. Currently 13 of our live cases involve some aspect of tenancy fraud, 1 property was secured in Q1 and several properties pending action to recover with housing management or legal services. SAFS also reviewed 22 Right to Buy and 14 'Succession' applications to prevent money laundering or fraud in these processes, one such review identified a potential fraud and was escalated for further enquiries.
14. SAFS manages the 'Council Tax Review' framework for all borough/district councils enabling them to identify fraudulent applications for council tax discounts. The new contract has been delivered by SAFS working with all district/boroughs and is now live with Stevenage Council planning to make use of the framework in 2024 through its shared Revenues and Benefit Service.
15. In June SAFS worked with Anti-Fraud teams at Councils across Hertfordshire, Buckinghamshire, and Oxfordshire to provide a campaign to tackle the twin problem of Blue Badge theft and the misuse of stolen badges in car parks owned by Councils. In Hertfordshire SAFS also engaged with the Hertfordshire Constabulary and joint patrols with SAFS, Police and Council CEOs officers taking part, were conducted through June targeting known hot spots.
16. SAFS KPIs were agreed in the Anti-Fraud Plan, progress is reported below.

SAFS KPIs - 2024/ 2025- (SBC)

KPI	Measure	Objectives	Performance to August 2024
1	Return on investment from SAFS Partnership.	<ul style="list-style-type: none"> A. Meetings to take place with the Assistant Director of Finance, quarterly. B. Strategic Director (CFO) or deputy will attend SAFS Board meetings quarterly. C. Regular meetings to take place with Directors/Service Leads to agree and update local work plans. 	<ul style="list-style-type: none"> A. Meetings take place with the Executive Director (Finance and Transformation) and other senior leaders to discuss delivery of the AF Plan and anything else relevant. The Agenda is agreed by Council Officers B. Executive Director (Finance and Transformation) is a member of the SAFS Board and attend its quarterly meetings. C. SAFS meet with other service leads across the Council as and when required with a focus on the highest risk areas.
2	Provide an investigation service.	<ul style="list-style-type: none"> A. Deliver between 90% and 110% of the 435 Days of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management. B. 3 Reports to Audit Committee. C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings. 	<ul style="list-style-type: none"> A. To the end of July 2024 SAFS had provided 130 days (30%) of those planned for the year. B. 5 reports in all will be delivered in 24/25 at the June/September/March AC meetings. C. SAFS attend CGG and JAG meetings at SBC.
3	Action on reported fraud.	<ul style="list-style-type: none"> A. SAFS response to all urgent/ high risk cases within 1 working day. B. All other cases 2 Days on Average. 	<p>In Q1 SAFS responded to 100% of referrals within 24 hours on average. <i>(We are still unable to report separately on Urgent cases)</i></p>
4	Added value of SAFS membership.	<ul style="list-style-type: none"> A. Membership of NAFN & PNLD B. Access to CIPFA/CIFAS/NCSC/AF/FFCL alerts/trends/best practice C. NAFN Access/Training for relevant Council Staff D. 10 Training events for staff/Members in year. (To be agreed with Directors/ Service leads and HR) 	<ul style="list-style-type: none"> A. SBC via SAFS are subscribed to NAFN/PNLD B. All access to best practice sites are in place. C. NAFN access and training for officers is in place for 24/25 D. 5 Sessions delivered in Q1/Q2, with 3 more planned for Q2.
5	Allegations of fraud. & And outcomes from cases investigated.	<ul style="list-style-type: none"> A. All reported fraud (referrals) will be logged and reported to officers by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each will be reported to officers. C. 12 Social homes secured from unlawful use or sub-letting. D. 100% Review of all Right to Buy and 'Succession' applications. 	<ul style="list-style-type: none"> A. Fraud reporting options available for staff and residents on the Council's webpage and intranet- This is linked to SAFS reporting tools. B. All cases with reports/values/outcomes recorded on SAFS CMS. C. 1 property recovered in Q1 with several pending recovery at the time of reporting. D. 100% review of all RTBs and Successions.
6	Making better use of data to prevent/identify fraud.	<ul style="list-style-type: none"> A. Support the output from NFI 2024/25 Council services. B. Membership and VFM from the Herts FraudHub in 2024/25. 	<ul style="list-style-type: none"> A. The NFI data-upload is planned for October with plans to review output from January. B. The Council has a contract in place for the FHub and data is being uploaded and output under review with Council officers.

Further Reading

17. List of Background Papers - Local Government Act 1972, Section 100D

- (a) ***Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)***
- (b) ***Fighting Fraud and Corruption Locally- A Strategy for the 2020's (CIPFA/CIFAS/LGA 2020)***
- (c) ***Tackling Fraud in the Public Sector (CIPFA 2020)***
- (d) ***Lost Homes Lost Hope (Fraud Advisory Panel 2023)***

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Stevenage Borough Council Audit Committee

4 September 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
- d) Note the Global Internal Audit Standards Briefing Paper

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
 - 2.11 Global Internal Audit Standards

Appendices:

- A Progress against the 2024/25 Internal Audit Plan
- B Implementation Status of Critical and High Priority Recommendations
- C Internal Audit Plan Items (April 2024 to March 2025) - Indicative start dates agreed with management
- D Assurance Definitions / Priority Levels
- E Global Internal Audit Standards Briefing Paper

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 2024/25 Internal Audit Plan to 16 August 2024.
 - The findings for the period 1 May 2024 to 16 August 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 16 August 2024.
 - A briefing paper on the revised Global Internal Audit Standards.

Background

- 1.2 Internal Audit's Annual Plan for 2024/25 was approved by the Audit Committee at its meeting on 26 March 2024. The Audit Committee receive periodic updates against the Internal Audit Plan. This is the first update report for 2024/25.
- 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 16 August 2024, 32% of the 2024/25 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 May 2024 (reports issued in April were included in the Internal Audit Annual Report, presented to the June committee meeting):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Sickness Absence Management 2023/24	May 2024	Substantial	None
Vehicle Workshop	June 2024	Substantial	One Medium, One Low priority
Freedom of Information	July 2024	Reasonable	Two Medium priority
Facilities Management	Aug 2024	Limited	One High, Two Medium, Three

			Low priority
Review of Audit Committee	Aug 2024	Reasonable	One Medium, One 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 2024/25 approved projects to 16 August 2024. Appendix A provides a status update on each individual project within the 2024/25 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	5	19%
Draft Report Issued	0	0%
In Fieldwork/Quality Review	4	15%
In Planning/Terms of Reference Issued	3	12%
Allocated	13	50%
Not Yet Allocated	0	0%
Cancelled/Deferred	1	4%
Total	26	100%

Internal Audit Plan Changes

- 2.4 The planned internal audit of Housing Register & Allocations has been deferred to 2025/26. This is because a new allocations policy is due to be implemented and service management has requested the audit be delivered once it is in place and working. 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. Contingency currently stands at 12.5 days.

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. Seven new High Priority recommendations have been added to the schedule since the last Progress Report. These recommendations are from audits of Housing Property Services - Contract Compliance (2023/24), and Facilities Management. The presentation of Appendix B has been split between part 1 and part 2 of the committee agenda.

Performance Management

- 2.7 The 2024/25 annual performance indicators were approved at the SIAS Board meeting in March 2024.
- 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 2025	Profiled Performance 16 Aug 2024	Actual Performance 16 Aug 2024	Notes
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excludes unused contingency)	95%	35%	32%	93 days delivered out of the current 287.5 days planned
2. Planned Projects * – percentage of actual completed projects to draft report stage against planned completed projects by 31 March 2025	90%	24%	20%	5 projects to draft or final report from the 25 planned
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%	Based on the results of the 1 completed questionnaire received (from the 5 issued)
4. 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 and final stage, and items carried forward from 2023/24 that were not at draft report stage by 31 March 2024.

- 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:
- **5. 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 2024/25 as the audit plan for the financial year 2024/25 was presented to the Committee in March 2024.

- **6. Planned Projects** - percentage of actual completed projects to final report stage against planned completed projects.
- **7. Chief Audit Executive's Annual Report** – presented at first 2024/25 meeting of the Audit Committee. This indicator was achieved for 2024/25 as the Client Audit Manager's Annual Report (for 2023/24) was presented to the June 2024 meeting of this committee.

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.

Global Internal Audit Standards

2.11 A briefing paper on the revised Global Internal Audit Standards that are required to be implemented by SIAS by 1 April 2025 is attached at Appendix E. Members should note that the Standards guide the worldwide professional practice of internal auditing, are principle-based, and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are guiding principles that enable effective internal auditing, including the role and function of an audit committee.

APPENDIX A - PROGRESS AGAINST THE 2024/25 INTERNAL AUDIT PLAN

2024/25 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 – 64 days									
Business Rates (shared with EHC)						64	Yes	0.5	Allocated
Council Tax (shared with EHC)							Yes		Allocated
Housing Benefits (shared with EHC)							Yes		In Planning
Treasury Management							Yes		Allocated
Debtors							Yes		Allocated
Creditors							Yes		Allocated
Payroll (risk & control mapping refresh)							Yes		Allocated
Housing Rents							Yes		Allocated
Cash & Banking (risk & control mapping refresh)							Yes		Allocated
Operational Services – 54.5 days									
Property Statutory Compliance Checks x2						12	Yes	2	In Fieldwork
Estates (asset utilisation)						10	Yes	0	Allocated
Housing Register & Allocations						0.5	Yes	0.5	Cancelled
Vehicle Workshop	Substantial	0	0	1	1	10	Yes	10	Final Report Issued
Follow Up of Limited Assurance Reports from 2023/24						10	Yes	0	Allocated
Facilities Management	Limited	0	1	2	3	12	Yes	12	Final Report Issued
Corporate Services/Themes – 94 days									
Review of Audit Committee	Reasonable	0	0	1	1	10	Yes	10	Final Report Issued
Confidential Reporting Procedures						10	Yes	8	In Fieldwork
Contract Management						12	Yes	1.5	In Planning
Climate Data & Reporting						10	Yes	4.5	In Fieldwork
Embedded Project Assurance						12	Yes	0	Allocated

APPENDIX A - PROGRESS AGAINST THE 2024/25 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 refresh)						2	Yes	0	Allocated
Freedom of Information	Reasonable	0	0	2	0	10	Yes	10	Final Report Issued
Commercialisation						12	Yes	5.5	In Fieldwork
Corporate Governance (risk & control mapping)						10	Yes	0	Allocated
On Demand Grant Audits						6	Yes	0	Allocated
IT Audits – 12 days									
Data Breach Incidents (shared with EHC)						6	Yes	0.5	In Planning
IT Hardware Inventory (shared with EHC)						6	Yes	0	Allocated
Completion of 2023/24 Projects – 8 days									
Sickness Absence Management	Substantial	0	0	0	0	8	Yes	8	Final Report Issued
Contingency – 12.5 days									
Contingency						12.5	N/A	0	Through Year
Strategic Support – 55 days									
Head of Internal Audit						3	Yes	3	Complete
Audit Committee & Recommendation Follow Up						10	Yes	5.5	Through Year
Client Engagement & Adhoc Advice						10	Yes	3	Through Year
2025/26 Audit Planning						5	Yes	0	Allocated
SIAS Service Development & Global Internal Audit Standards Implementation						5	Yes	5	Through Year
Assurance Mapping						10	Yes	0.5	Through Year
Plan & Progress Monitoring						12	Yes	3	Through Year
SBC TOTAL		0	1	6	5	300		93	
* C = Critical Priority, H = High Priority, M = Medium Priority, LA = Low/Advisory Priority									

APPENDIX B: IMPLEMENTATION STATUS OF 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 (Aug 2024)
1.	Facilities Management 2024/25	<p><u>Recommendation:</u> To address audit findings that relate to contracts and procurement.</p> <ul style="list-style-type: none"> a) Develop a clear procurement plan and timeline to deal with the volume of outstanding activity, seeking advice from the Corporate Procurement team. b) The Facilities Manager complete the Council’s Procurement training course to ensure he is up to date on the requirements of the Councils procurement rules and processes. <p><u>Agreed Management Actions(s):</u></p> <ul style="list-style-type: none"> a) Procurement timeline now developed, starting in October 2024. b) Training has been completed. 	<p>Responsible Officer: Facilities Manager.</p> <p>Due Date: 31/08/2024.</p>	<p><u>August 2024.</u> New recommendation. The management response opposite is the latest comment.</p>	Implemented.

APPENDIX C: INTERNAL AUDIT PLAN 2024/25 – PLANNED AUDIT START DATES

April	May	June	July	August	September
2023/24 Projects Requiring Completion - Final Report	Confidential Reporting Procedures - In Fieldwork	Facilities Management - Final Report	Estates (asset utilisation) - Allocated	Property Compliance Checks (1) - In Fieldwork	Housing Register & Allocations - Cancelled
	Vehicle Workshop - Final Report	Freedom of Information - Final Report	Data Breach Incidents & Response - In Planning	Climate Data & Reporting - In Fieldwork	Contract Management - In Planning
	Review of Audit Committee - Final Report		Commercialisation - In Fieldwork		
October	November	December	January	February	March
IT Hardware Allocated	Council Tax - Allocated	Business Rates - Allocated	Creditors - Allocated	Treasury Management - Allocated	
Cash & Banking Allocated	Debtors - Allocated	Housing Benefits - In Planning	Payroll - Allocated	Corporate Governance - Allocated	
Housing Services Contract Compliance Follow Up - Allocated	Housing Rents - Allocated	Risk Management - Allocated	Follow Up (2) - Allocated	Property Compliance Checks (2) - Allocated	

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.

APPENDIX E - Global Internal Audit Standards – Briefing Paper

The change from the International Professional Practices Framework to the Global Internal Audit Standards

1. Following consultation during 2023, the Global Institute of Internal Auditors (the GIIA) published a set of new Global Internal Audit Standards (GIAS) in January 2024. The GIAS are due to come into effect from January 2025, although this has been extended to April 2025 for the UK public sector to align with the new financial / municipal year and internal audit reporting requirements.
2. The previous International Professional Practices Framework (IPPF) was separated into categories for mandatory and recommended guidance. The new 2024 GIAS have incorporated the recommended guidance into the mandatory requirements to aid practitioners in accessing and understanding the information. This has also led to the previous Code of Ethics, Core Principles, and Implementation guidance under the umbrella of the new Standards. The image below (from the consultation papers) encapsulates this change.



3. New to the 2024 GIAS are the setting of Topical Requirements. They are intended to assist the internal audit function by providing structure and consistency in covering governance, risk, and control over specified areas. These requirements will be published during 2024 and will be mandatory when Internal Audit scope an audit in these topical areas.
4. Although mandatory, there is a comply or explain approach when auditing, or choosing not to audit, an area where topical requirements have been published. They are not a requirement to perform any engagement, nor are they a step-by-step approach to the execution of the Internal Audit engagement. The topical requirements include a tool to help internal audit document the rationale for including or excluding certain requirements.
5. To date, one Topical Requirement has been published on Cyber Security. Others being developed include:
 - a) Organisational Governance
 - b) Fraud Risk Management

APPENDIX E - Global Internal Audit Standards – Briefing Paper

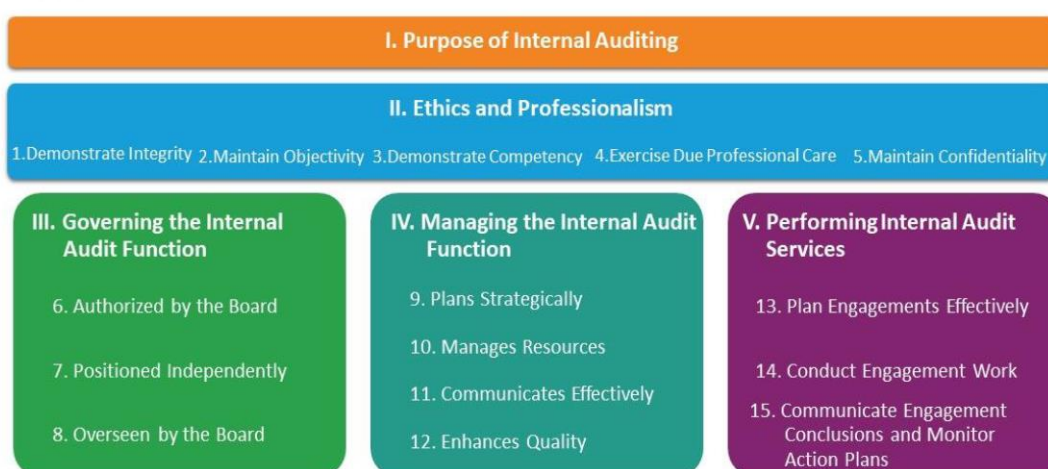
- c) Information Technology Governance
- d) Sustainability: Environment, Social and Governance
- e) Third-party Management
- f) Performance Audits (Public Sector specific)

The Global Internal Audit Standards – Domains and Principles



Global Internal Audit Standards

Five Domains, 15 Principles



6. The GIAS are arranged into five Domains (sections), as also outlined in the image above:

- I. Purpose of Internal Auditing
- II. Ethics and Professionalism
- III. Governing the Internal Audit Function
- IV. Managing the Internal Audit Function
- V. Performing Internal Audit Services

7. There are five domains, with the first two being the foundations which apply across all other domains. Domain III is around governing internal audit, is therefore the most relevant to the Audit Committee and includes essential conditions that the Audit Committee needs to follow. Domain IV is around leading the internal audit function and therefore is the focus of the Chief Audit Executive (aka the Head of Internal Audit). Finally, Domain V is focused on performing internal audit engagements.
8. The 5 domains include 15 Principles (as also outlined in the image above) and 53 individual standards to support these. Each standard includes:
- a) Requirements – mandatory practices for internal audit

APPENDIX E - Global Internal Audit Standards – Briefing Paper

- b) Considerations for implementation – common and preferred practices to consider when implementing the requirements.
- c) Examples of evidence of conformance – examples to demonstrate that the requirements have been implemented.
9. This new structure while meaning the document is now in the region of 100 pages long, is easy to dip in and out of and bring all relevant material to one place, rather than having to read across different documents.
10. The review has not just been structural. There are new requirements and clarifications. These are aimed to raise the bar for the profession across the globe in the private and public sector, however, in the UK and Ireland (and EU) the distance from current practice to the new GIAS is not as great as in other parts of the world. This is especially the case for public sector internal audit teams in the UK that ‘generally conformed’ with the Public Sector Internal Audit Standards (PSIAS) enshrined in the Accounts and Audit Regulations 2015. The PSIAS were themselves based on the IPPF.

Key Changes

11. The table below illustrates some of the key changes in the GIAS:

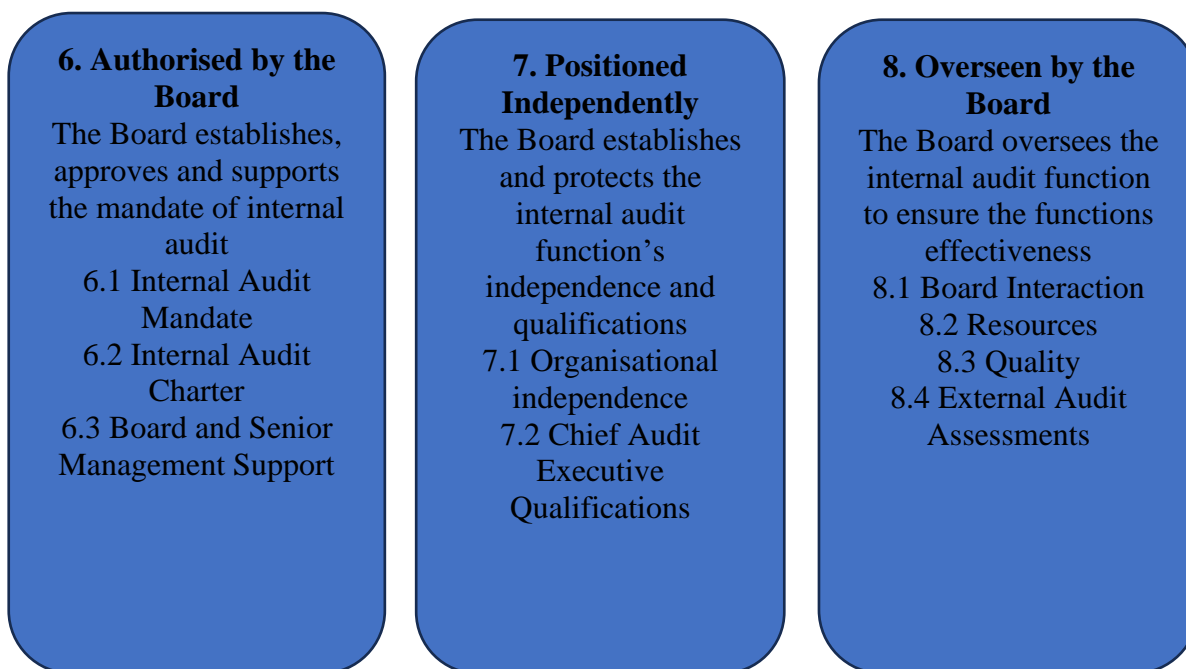
Area	Term	Definition / Change / Narrative
Glossary	Board	<p>Collective noun and is defined in the glossary as below:</p> <p><i>‘Highest-level body charged with governance, such as:</i></p> <ul style="list-style-type: none"> • <i>A board of directors.</i> • <i>An audit committee.</i> • <i>A board of governors or trustees.</i> • <i>A group of elected officials or political appointees.</i> • <i>Another body that has authority over the relevant governance functions.</i> <p><i>In an organisation that has more than one governing body, “board” refers to the body or bodies authorised to provide the internal audit function with the appropriate authority, role, and responsibilities.’</i></p> <p>In the UK public sector, this is generally deemed to be the Audit Committee or equivalent.</p>
Glossary	Root Cause	<p>Core issue or underlying reason for the difference between the criteria and condition of an activity under review. See Domain V below.</p>
Domain I	Purpose of Internal Auditing	<p><i>‘Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.’</i></p>

APPENDIX E - Global Internal Audit Standards – Briefing Paper

		<p>Internal auditing enhances the organisation's:</p> <ul style="list-style-type: none"> • Successful achievement of its objectives. • Governance, risk management, and control processes. • Decision-making and oversight. • Reputation and credibility with its stakeholders. • Ability to serve the public interest.
Domain II	Code of Ethics	<p>Essentially the Code of Ethics with some further expansion pulling from Implementation Guidance. Introduction of the term 'Professional Courage' and ethics training as a consideration for implementation, but CIAs MUST complete 2 CPEs of ethics training every year. Also 'professional courage' as an appraisal objective.</p> <p>Professional courage is a new term. This is not about internal auditors seeking to speak directly with the board on areas they are worried about, but having professional discussion and using escalation protocols as appropriate to ensure that the message reaches the board as appropriate. Part of this is about ensuring that internal audit functions are aware of what ethical standards are expected, which is why ethical training is key part of this.</p>
Domain III	Governing the Internal Audit Function	<p>Domain III covers the governance of Internal Audit and represents a significant change. Although it covers areas that were in the previous IPPF, the new GIAS go further and explicitly lay out essential requirements, principles and standards with which Senior Management and the Board (Audit Committee) must conform. See separate section at paragraph 12 below.</p>
Domain IV	Managing the Internal Audit Function	<p>The Internal Audit Strategy principle sits in here, and the need to develop and implement an internal audit strategy.</p> <p>It should be noted that SIAS already has a Strategy approved by the SIAS Board. This is being revisited to ensure that it conforms with the GIAS.</p>
Domain V	Performing the Internal Audit Services	<p>This is largely the same as the previous IPPF / PSIAS. The term root cause in here has been an area of discussion amongst internal auditors.</p>

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12. The images below depict the three principles and nine standards of Domain III, being that most relevant to Audit Committees and senior management.



UK Public Sector Update

13. The GIAS will form the basis for internal auditing for the UK public sector and the UK Public Sector Internal Auditing Standards Advisory Board (IASAB) are carrying out a review of the new standards with a view to identifying and producing any sector specific interpretations or other material needed to make them suitable for UK public sector use. This is especially relevant for Domain III. The consultation material is due for issue by September 2024 at the latest, with a consultation period of eight weeks.
14. Having regard to the points raised by respondents, the IASAB will prepare final material for application in the UK public sector together with guidance on transition. Subject to approval by the Relevant Internal Audit Standards Setters (including Treasury, CIPFA and others), these will be issued later in 2024 to allow sufficient time for preparation for implementation. The effective date of the new material developed by IASAB will be 1 April 2025, to align with requirements for annual opinions and other relevant aspects of UK public sector governance which line up with the financial year. Until then, the existing PSIAS based on the old International Professional Practices Framework and enshrined in the Audit and Account Regulations 2015 will continue to apply.
15. The PSIAS require an External Quality Assessment (EQA) to be completed every five years, and this continues to be a requirement of the GIAS. Those local authorities with an EQA due in 2024 must complete these prior to the GIAS implementation date of 9 January 2025 and can request an additional readiness assessment against the new GIAS. Those with an EQA date due in 2025 can opt to bring this forward for conduct under the existing PSIAS on the grounds

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outlined or keep to the planned date but must have completed sufficient engagements under the new standards prior to being assessed. The next SIAS EQA is due in July 2026, thereby providing sufficient time to embed and evidence compliance with the new standards.

Actions and Next Steps

16. SIAS have, and will continue to, participate in consultation around the GIAS.
17. We have been attending professional body (Chartered IIA, CIPFA) and network (Chief Auditors Network, HCCIAG, LAG) webinars, training, and discussions to make sure we learn from colleagues and understand what is proposed, timeframes, the implications for SIAS and how we ensure we conform with the GIAS.
18. We have reviewed guidance and template documents available on the Chartered IIA member web pages and are working through the GIAS self-assessment tools available from the professional body to identify gaps, actions and exceptions.
19. As noted at paragraph 10, there are not a significant number of requirements for SIAS to implement from scratch and most of the work relates to revisiting and updating (where necessary) our documentation, processes, procedures, approaches, and methodologies to ensure that they conform with the GIAS. We have sought to link this as closely as possible to the normal delivery and reporting cycles to the SIAS Board and partner Audit Committees. To this end, partner Audit Committees have already received our updated and revised Internal Audit Mandate and Internal Audit Charter for approval in the May / June reporting cycle.
20. We will report on implementation and conformance with the GIAS, including areas of deliberate non-conformance, to the SIAS Board and our partner Audit Committees as part of our annual self-assessment accompanying the annual assurance opinion and our Internal Audit Charter. This forms part of the May / June Audit Committee cycle. We will inform the SIAS Board and partner Audit Committees should any material impediments to implementation arise ahead of the key UK public sector implementation date of 1 April 2025.

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**AUDIT COMMITTEE/ CABINET
/ COUNCIL**

Portfolio Area: Resources and Transformation

**Date: 4 September 2024 / 18
September 2024 / 16 October
2024**



**ANNUAL TREASURY MANAGEMENT REVIEW 2023/24 AND PRUDENTIAL
INDICATORS**

NON-KEY DECISION

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

1 PURPOSE

1.1 To review the operation of the 2023/24 Treasury Management and Investment Strategy.

2 RECOMMENDATIONS

2.1 Audit Committee

That, subject to any comments by the Audit Committee to the Cabinet, the 2023/24 Annual Treasury Management Review be recommended to Council for approval.

2.2 Cabinet

That, subject to any comments made by the Cabinet, in addition to those made by the Audit Committee, the 2023/24 Annual Treasury Management Review be recommended to Council for approval.

2.3 Council

That, subject to any comments from the Audit Committee and the Cabinet, the 2023/24 Annual Treasury Management Review be approved.

3 BACKGROUND

3.1 Regulatory Requirement

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.1.2 During 2023/24 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 7 February 2023)
- a mid-year treasury update report (Council 20 December 2023)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

3.1.3 In addition the Treasury management update at Q1 was reported to Cabinet in the Capital Monitoring Report Q1 & Q2, 15 November 2023.

3.1.4 In December 2017, CIPFA revised the Code to require, all local authorities to report on:

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

These elements are covered in the annual Capital Strategy reported to Council in February each year.

3.1.5 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.1.6 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;

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- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

3.1.7 Officers confirm that they have complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee and the Cabinet before they were reported to the Council.

3.2 Executive Summary

3.2.1 During 2023/24, the Council complied with its legislative and regulatory requirements¹ as outlined in paragraph 3.1.1 above. These requirements include: -

- 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.
- 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.

3.2.2 The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1

Prudential and treasury indicators	31.3.23 Actual £000	2023/24 Original £000	31.3.24 Actual £000
Capital expenditure			
GF	17,814	34,017	8,880
HRA	43,966	62,420	37,569
Total	61,780	96,437	46,449
Capital Financing Requirement:	55,513	55,035	58,635

• ¹ For more detail please refer to Treasury Management Strategy including Prudential Code Indicators 2023/24 (Council 7 February 2023)

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Prudential and treasury indicators	31.3.23 Actual £000	2023/24 Original £000	31.3.24 Actual £000
GF	264,538	292,842	272,384
HRA	320,051	347,877	331,019
Total			
Gross borrowing²	235,057	280,452	242,557
Investments			
• Longer than 1 year	2,300	0	0
• Under 1 year	40,985	15,091	25,202
• Total	43,285	15,091	25,202
Net borrowing	191,772	265,361	217,355

3.2.3 There was slippage of planned capital expenditure from 2023/24 into future years resulted in an overall reduction in the use of borrowing to finance capital expenditure. Not all capital expenditure is funded from borrowing so the reduction in the capital financing requirement (the councils need to borrow) does not match the reduction in capital expenditure.

3.2.4 Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing (internal and external) was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

3.2.5 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the year the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24.

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

4 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

4.1.1 Capital expenditure³ can be financed either by capital resources the Council has on its balance sheet (e.g. capital receipts and capital grants) or by making a revenue contribution to capital. If sufficient capital resources are not available to fund the expenditure the Council would need to borrow to meet the funding gap. This borrowing may be taken externally in new loans or internally from cash balances held by the Council. The need to borrow is measured and reported through the Prudential Indicators.

² Excludes Finance Leases

³ Council expenditure can be classified as capital when it is used to purchase assets with a life of more than one year, exceeds £7,500 in value and meets the guidelines laid out in CIPFA accounting practices.

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4.1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 2

2023/24 Capital Expenditure and Financing			
	31.3.23	2023/24 Q3 Working Budget	31.3.24
	£'000	£'000	£'000
General Fund			
Capital Expenditure:	17,814	13,300	8,880
Financed excluding borrowing	(12,928)	(7,571)	(4,700)
Unfinanced capital expenditure (borrowing)	4,886	5,729	4,180
HRA			
Capital Expenditure:	43,966	40,746	37,569
Financed excluding borrowing	(39,392)	(29,538)	(29,722)
Unfinanced capital expenditure (to be met from borrowing)	4,574	11,208	7,847

4.2 THE COUNCIL'S OVERALL BORROWING NEED

4.2.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). It represents the amount of debt it needs to/has taken out to fund the capital programme (and includes both internal and external borrowing). The CFR is then reduced as debt repayments are made and Minimum Revenue Provisions are made. A separate CFR is calculated for the General Fund and Housing Revenue Account and any transfers of assets (such as land or buildings) between the two accounts will impact on each fund's CFR. The CFR will go up on the fund "receiving" the assets and go down (by the same amount) on the fund "giving" the asset. There were no transfers of assets in 2023/24.

4.2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

4.2.3 Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available

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to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.2.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.2.5 The Council's 2023/24 Minimum Revenue Provision Policy (MRP), as required by MHCLG Guidance, was approved as part of the Treasury Management Strategy Report for 2023/24 on 7 February 2023.

The MRP charged to the General Fund in 2023/24 was £374,923 of which:

- £35,119 is funded from investment property
- £89,101 is funded by the Garage Improvements Programme
- £130,703 is a net cost to the General Fund
- £120,000 (VRP) charged to leisure

4.2.6 The Council's CFR for the year is shown below and represents a key prudential indicator. It includes finance leases included on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 3

CFR (£'000): General Fund	31.3.23 Actual	2022/23 Q3 Budget	31.3.24 Actual
Opening balance	46,366	50,363	55,513
Add: unfinanced capital expenditure (as above)	4,886	5,729	4,180
Increase in finance lease obligations	5,788	0	0
Less:			
Unfinanced capital expenditure from prior years now financed	(510)	(417)	(418)
MRP / VRP	(215)	(374)	(374)
Finance lease repayments	(239)	(266)	(266)
Appropriations to / from HRA	(540)	0	0
Other	(23)	0	0
Closing balance	55,513	55,035	58,635
Closing balance excluding finance lease	38,780	43,366	42,160

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CFR (£'000): HRA	31.3.23 Actual	2023/24 Q3 Budget	31.3.24 Actual
Opening balance	258,581	281,634	264,538
Add: Unfinanced capital expenditure (as above)	4,574	11,208	7,847
New finance lease	843	0	0
Appropriations to / from GF	540	0	0
Other	0	0	(1)
Closing balance	264,538	292,842	272,384
Closing balance excluding finance lease⁴	263,205	291,509	271,051

4.2.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.3 Limits to Borrowing Activity

4.4 Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4

	31.3.23 Actual £'000	2023/24 Budget £'000	31.3.24 Actual £'000
Gross borrowing position	235,057	280,452	242,557
Finance Leases	18,067	17,808	17,808
CFR	(320,051)	(347,877)	(331,019)
(Under) / over funding of CFR – Internal Borrowing	(66,927)	(49,617)	(70,654)

4.5 The **authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

⁴ HRA leases 10 residential properties from Marshgate Ltd a wholly owned subsidiary of the council.

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4.6 The **operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.7 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Table 5

Authorised limits	Operational Boundary £'000	Authorised Limit £'000	Actual External Debt £'000
Borrowing	354,503	362,503	246,849
Less Investments			(63,425)
Total	354,503	362,503	183,424

4.7.1 The ratio of financing costs to net revenue stream is equal to General Fund interest costs divided by the General Fund net revenue income from Council tax, Revenue Support Grant and retained business rates. For the HRA the net revenue stream is the income shown in the council's accounts – rents, service charges and other income. The ratio of financing costs to net revenue stream reflects the high level of debt as a result of self-financing.

4.8 TREASURY MANAGEMENT ACTIVITIES

TREASURY POSITION AS AT 31 MARCH 2024

4.8.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

4.8.2 At the end of 2023/24 the Council's treasury position (excluding finance leases), was as follows:

Table 6

Treasury Position						
	2022/23			2023/24		
	31 March 2023 Principal £'000s	Rate / Return %	Average Life (Yrs.)	31 March 2024 Principal £'000s	Rate / Return %	Average Life (Yrs.)
PWLB Borrowing	227,487	3.28	12	234,987	3.26	11
Other Borrowing (LEP)	7,570	0	7	7,570	0	6

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Treasury Position						
	2022/23			2023/24		
	31 March 2023 Principal £'000s	Rate / Return %	Averag e Life (Yrs.)	31 March 2024 Principal £'000s	Rate / Return %	Averag e Life (Yrs.)
Total Debt	235,057			242,557		
Capital Financing Requirement ⁵	(301,985)			(313,211)		
Total Investments	43,285			25,202		
Over/(Under) borrowing	(23,643)			(45,452)		

The maturity structure of the debt portfolio was as follows:

Table 7

Debt Maturity Structure	31.3.23 Actual £'000	2023/24 Authorised Limit £'000	31.3.24 Actual £'000
Within 1 Year	0		0
Over 1 not over 2 years	0		500
Over 2 not over 5 years	18,956		28,056
Over 5 not over 10 years	64,700		55,100
Over 10 not over 15 years	100,663		100,663
Over 15 not over 20 years	37,658		45,158
Over 20 not over 30 years	5,510		5,510
Over 30 years	0		0
Total PWLB Debt	227,487		234,987
LEP Loan:			
Within 1 Year	0		1,000
Over 1 not over 2 years	1,000		0
Over 5 not over 10 years	6,570		6,570
Total LEP Loan	7,570		7,570
Total Debt	235,057	391,000	242,557

⁵ Excludes Finance Leases

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	31.3.23 Actual £000	31.3.23 Actual %	31.3.24 Actual £000	31.3.24 Actual %
Treasury investments – all managed in house				
Banks and Building Societies	26,600	61%	19,499	77%
Local authorities	7,300	17%	5,300	21%
Money Market Funds	9,385	22%	403	2%
Total treasury investments	43,285	100%	25,202	100%

Non-Treasury investments				
Subsidiaries (para 4.8.4)	11,938	100%	11,931	100%
Total Non-Treasury Investments	11,938	100%	11,931	100%
Treasury investments	43,285	78%	25,202	68%
Non-Treasury investments	11,938	22%	11,932	32%
Total of all Investments	55,223	100%	37,134	100%

The maturity structure of the investment portfolio is as follows:

Table 8

Investment Maturity Structure	31.3.23 Actual £000	31.3.24 Actual £000
Within 1 Year	40,985	35,801
Longer than 1 year	14,238	1,333
Total Investments	55,223	37,134

4.8.3 The General Fund loan from the Local Enterprise Partnership (LEP) is in relation to regeneration activities.

4.8.4 The non-treasury loan to the subsidiary is the loan made to Marshgate LTD (WOC), for the purchase and development of housing within the Borough in 2021/22 and 2022/23.

4.8.5 The fall in the treasury investment balances of £18M between 31 March 2023 and 31 March 2024 reflects the use of internal borrowing to fund the capital programme. Refinancing the remaining internal borrowing is scheduled to take place in 2024/25.

4.9 TREASURY MANAGEMENT STRATEGY 2023/24

4.9.1 The Treasury Management Strategy was approved by Council on 7 February 2023.

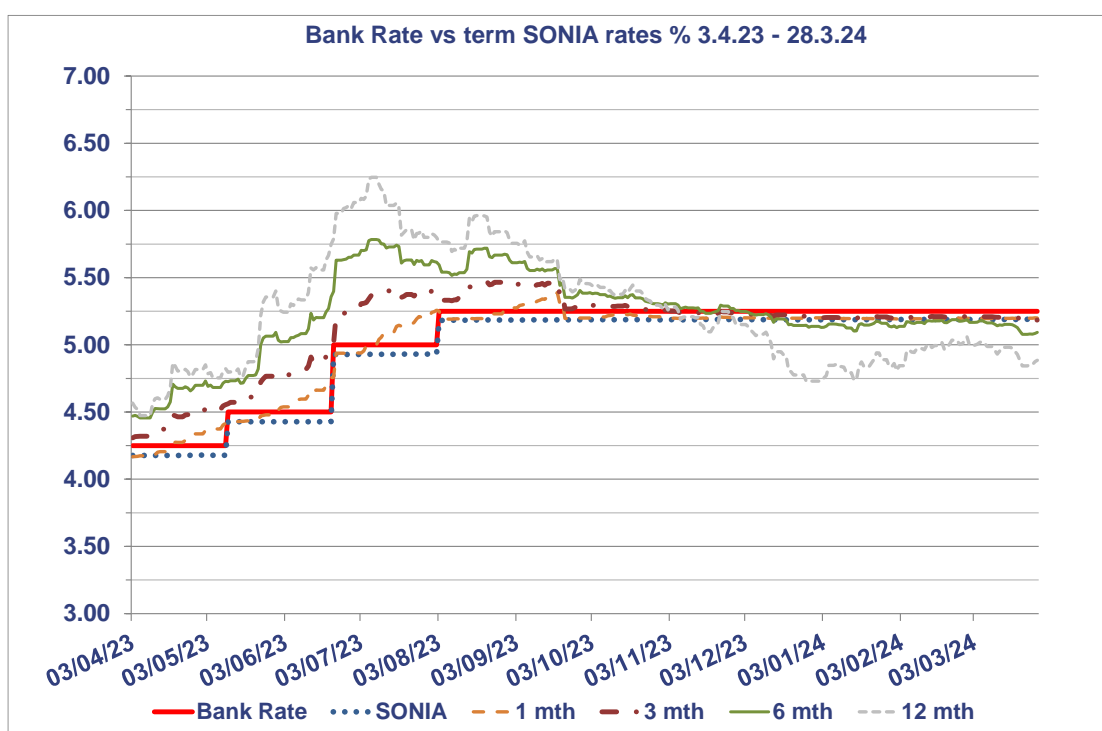
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There are no policy changes to the TMS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.10 Investment strategy and control of interest rate risk

4.10.1 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures. Starting in April 2023, at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August 2023.

4.10.2 Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2023/24



4.11 Borrowing strategy and control of interest rate risk

4.11.1 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent when interest rates on investments were low and this also minimised counterparty risk.

4.11.2 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. The Council has taken some limited borrowing in 2023/24 to ensure the Council’s cashflow position

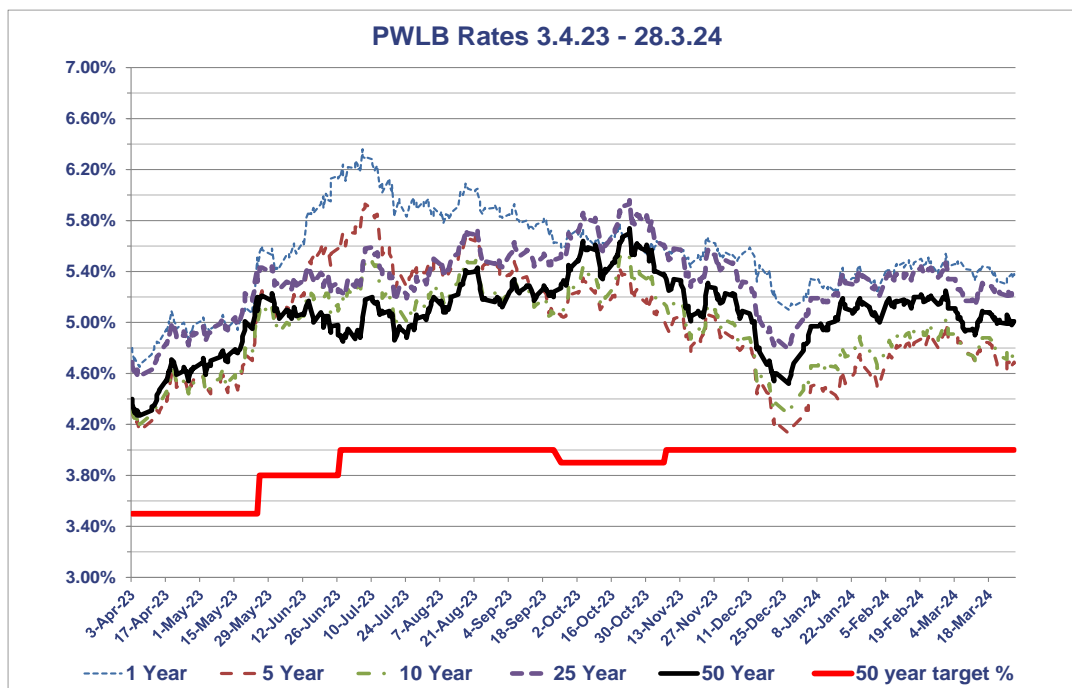
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is resilient and to ensure that if interest rates increase, large amounts of borrowing required are not all taken at higher rates.

- 4.11.3 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank rate had initially been forecast to peak at 4.5% but is now expected to have peaked at 5.25%.
- 4.11.4 By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 2% (June) but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.
- 4.11.5 The PWLB certainty rate is gilts plus 80bps. Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.
- 4.11.6 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rates falls and inflation (on the CPI measure) moved closer to the Bank of England's 2% target.
- 4.11.7 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.
- 4.11.8 The Bank of England is also embarking on a process of Quantitative Tightening. The gradual reduction of the Bank's original £895Billion stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.
- 4.11.9 The Chart below shows the volatility of the PWLB borrowing rates from 1 April 2023 to 31 March 2024.

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PWLB RATES 2023/24
Chart 1



4.12 BORROWING OUTTURN

4.12.1 One new loan was taken out in the year. This was to refinance HRA internal borrowing, details being - £7.5M loan taken from 24 August 2023 to 23 August 2041 at an annual interest rate of 5.3%.

4.12.2 Interest paid on PWLB borrowing during the year was £ 7.6M – Housing Revenue Account (HRA) and £40K - General Fund (GF). This was against an original budget of £8.3M. The favourable variance of £0.7M is due to reduced capital expenditure in year against plan as well as the use of internal resources to fund capital expenditure while still overachieving on investment income versus latest budget.

4.13 INVESTMENT OUTTURN

4.13.1 Investment Policy – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 7 February 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

4.13.2 There were no breaches to this policy in the year to 31 March 2024 with the investment activity conforming to the approved strategy. The Council had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO), demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is

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possible that surplus funds that may be borrowed during 2023/24 will be placed in the DMO temporarily, if PWLB borrowing rates are advantageous and cash balances due to timing of taking out new loans would breach other counterparty limits.

4.13.3 In accordance with the Treasury Management Strategy, the Council invests its surplus cash balances that are committed for future approved spending. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data and counterparty limits dependant on level of cash balances held.

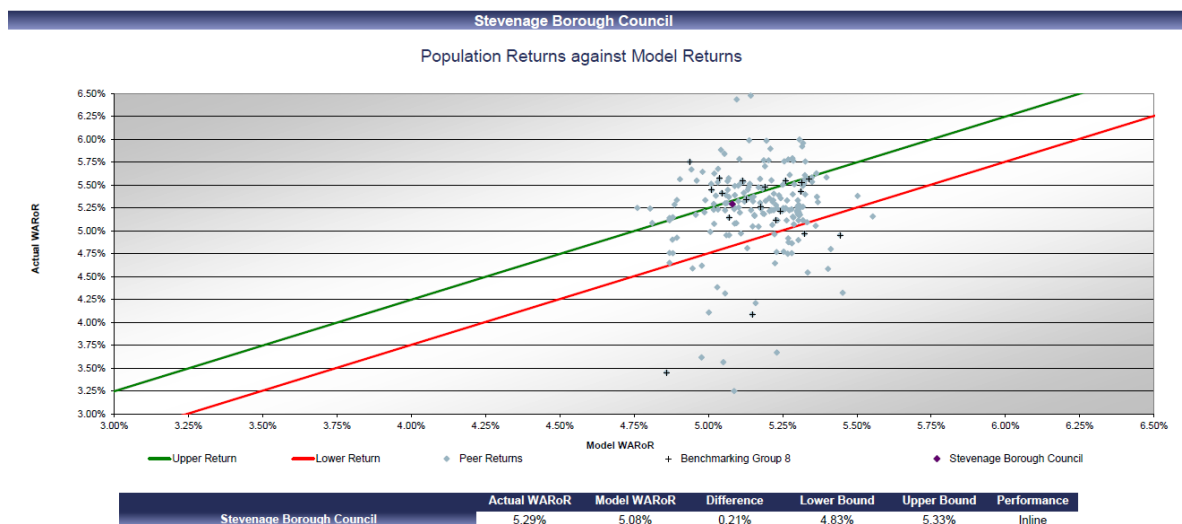
4.14 Investment performance year to date as of 31 March 2024

4.14.1 The Council’s current investment portfolio consists of “conventional” cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. No investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria.

4.14.2 Average level of funding available for investment purposes during the year was £48Million, earning an average interest rate of 5.19%. Interest earned to 31 March 2024 was £2.5Million on treasury investments. Against the working budget of £2.1M this resulted in additional contributions to the General Fund (£129K) and Housing Revenue Account revenue income (£263k).

4.14.3 The council’s treasury advisors (Link), provide regular benchmarking analysis of the performance of the council’s investments against a group of 20 other local authorities. The March 2024 report shows performance of the portfolio held at 31 March 2024 being in the upper return range against model returns. This performance is consistent across the year.⁶

Chart 2



⁶ WARoR = Weighted average rate of return on investments at 31 March 2024

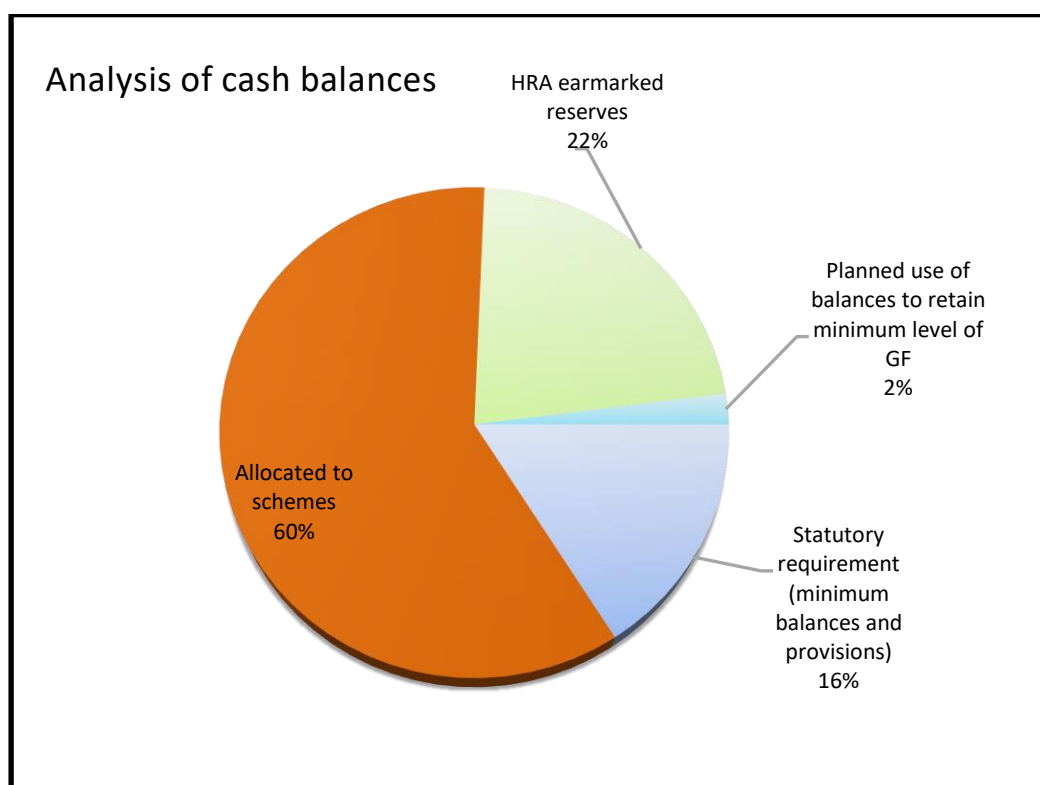
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4.14.4 The Council’s balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals.

4.14.5 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 5 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.

4.14.6 The following chart shows the planned use of cash balances as at 31 March 2024.

Chart 3



4.14.7 The restrictive use of a proportion of the cash balances set out above, plus the planned use of resources in line with the Council’s capital and revenue strategies mean that the investment balance of £25Million as at 31 March 24 is not available to fund new expenditure.

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. Any consequential financial impacts identified in the

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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.

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 since the last Treasury report. Officers will ensure that any changes to the Prudential and Treasury Management codes from 2024/25 are reflected in treasury operations and reporting requirements.

5.3 Risk Implications

- 5.3.1 The current policy of minimising external borrowing internally where appropriate, taking advantage of the benefits differentials between investment income and borrowing rates is kept under ongoing review as these conditions change. This policy only remains financially viable while cash balances are high. Capital investment, not funded by capital receipts and grant funding reduce these balances if not supported by additional borrowing. The risk is that the Council may need to take borrowing at higher rates than budgeted 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 take into account the relative risk of investments and also 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 continue at the current high level, although currently it is anticipated that rates will reduce (see para 4.11.6). This will be included in the HRA MTFs forecast in 2024.

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.

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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

1.1.1 There are no specific climate change implications resulting from this report.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2023/24 (Council 7 February 2023)
- BD2 2023/24 Mid-Year Treasury Management Review and Prudential Indicators (Council 20 December 2023)

APPENDICES

- Appendix A - Investment Portfolio, Link Investment Analysis Review March 2024
- Appendix B – Approved countries for investments

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Stevenage Borough Council

Monthly Investment Analysis Review

March 2024

Monthly Economic Summary

General Economy

The UK Manufacturing PMI rose to 49.9 in March from 47.5 in February, some way above market expectations of 47.8. UK factory activity nearly “stabilised” (ie a reading of 50 divides expansion from contraction), but still recorded a twentieth consecutive monthly contraction. Within the headline reading, subcomponents showed that manufacturers experienced the fastest expansion in new orders since May 2022, causing factories to increase production levels for the first time in a year and sparking renewed optimism, despite higher borrowing costs. However, on the pricing front, manufacturers observed accelerating input costs yet again with continued supply chain disruption as shippers avoid the Red Sea. Meanwhile, the UK Services PMI edged lower to 53.4 from 53.8 in February and below market expectations of an unchanged reading. This represented the slowest growth in business activity for three months, with firms linking it to constraints on households’ disposable income. Consequently, the UK composite PMI fell to 52.9 in March from 53 in February and slightly below market expectations of 53.1. Nonetheless, it was the fifth consecutive month of expansion for the UK private sector driven by a strong rate of output growth. This added to expectations that the UK would avoid a third consecutive negative quarterly growth reading in Q1, meaning that the mildest of recessions seen in the second half of 2023 was now concluded. Meanwhile, the UK construction PMI increased to 49.7 in February from 48.8 in January (it is released on a one-month lag to other sector reports), the highest since August 2023.

The UK economy expanded 0.2% m/m in January, following a 0.1% contraction in December and matching market expectations. Services output rose by 0.2% with strong retail trade and construction output rebounded by 1.1% after a poor December. However, industrial output fell by 0.2% in January after a 0.6% rise in December. Elsewhere, the UK’s trade deficit widened to £3.129 billion in January, after a three-month low in December, driven by a 1.4% rise in imports, compared to a 0.7% rise in exports.

The Chancellor of the Exchequer, Jeremy Hunt, presented his 2024 Spring Budget. It aimed to boost the economy following the weaker performance in the second half of 2023 and ahead of the expected general election later this year. One key point was the 2p cut in National Insurance Contributions following on from the cut in the previous Autumn Statement to reduce tax burdens and support household finances.

The UK recorded a fall in 21,000 jobs in the three months prior to January, below market expectations of a 10,000 increase and following a 72,000 growth in the prior period. This was the first fall in job creation since September 2023. Meanwhile, average weekly earnings (including bonuses) in the UK increased 5.6% y/y in the three months to January, the least since July 2022, and slightly below market expectations of 5.7%. The unemployment rate edged up to 3.9% between November 2023 and January, just above the previous quarter increase of 3.8% and slightly above market expectations of no change.

Regarding inflation, the monthly Consumer Price Index (CPI) rose by 0.6%, reversing the 0.6% fall in January. However, base effects meant the headline annual rate dropped to 3.4% in February, reaching its lowest level since September 2021. The rate of price pressures declined significantly for food and non-alcoholic beverages, and restaurants and hotels, while there was also a slowdown in miscellaneous goods and services. Costs also fell at a slower pace for both housing and utilities and transport. The annual core inflation rate, excluding food and energy, fell to 4.5 % from 5.1% the prior month.

The Bank of England decided to keep Bank Rate at 5.25% in its March meeting as it waits to be certain that the country’s inflationary pressures have subsided back towards its target rate. The Monetary Policy Committee voted 8-1 in favour of keeping rates unchanged, with one member voting for a 25-basis point decrease. In the retail sector, sales remain unchanged in February after an upwardly revised 3.6% increase in January and beating market expectations of a 0.3% decline.

While clothing and department store saw boosts, this was cancelled out by declines in trade at food stores and fuel retailers. Meanwhile, the GfK Consumer Confidence Indicator held at -21 in March and missed market expectations of a slight improvement to -19 as the cost-of-living crisis and broader economic uncertainty continued to dampen sentiment. However, there were increases in indices for consumer confidence over personal finances over past 12 months and next 12 months, alongside increased confidence in the general economic situation over the next 12 months. Elsewhere, public sector net borrowing, excluding public sector banks, rose to £8.4 billion in February which surpassed market expectations of £5.95 billion.

US Economy

The US economy added 275,000 jobs in February, in comparison to the downwardly revised 229,000 added in January, and above market expectations of a 200,000 increase. The main areas of gain were healthcare, government and food services and drinking places. The US economy expanded an annualised 3.4% in Q4 2023, slightly higher than the 3.2% previously reported as consumer spending and services were revised higher. The US inflation rate unexpectedly rose to 3.2% in February from 3.1% in January and above market expectations of holding steady. The Federal Reserve made no change to its policy rates at its March meeting. As in the UK and Europe, the central bank reiterated that members required further evidence that inflation is headed to target levels.

EU Economy

In the Euro area, the inflation rate dropped to 2.6% y/y in February, the lowest rate in three months but still above the ECB's 2% target. Meanwhile, the core rate, excluding food and energy prices, was confirmed at 3.1%, which is its lowest point since March 2022. GDP in Euro area stalled in the last quarter of 2023, after a 0.1% contraction in the previous period as high inflation, record borrowing costs, and poor external demand continued to apply downward pressure on growth. The European Central bank also held policy levels unchanged at its March meeting, stating that while most measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages.

Housing

The Halifax House Price Index rose 1.7% y/y in February, after a downwardly revised 2.3% gain in the prior month suggesting a relatively stable beginning of 2024 and adding to signs of increased housing activity. There was a fifth consecutive increase monthly for house prices as lower mortgage rates, lower Bank rate expectations and falling inflation all contributing. Meanwhile, the Nationwide House Price Index fell by 0.2% in March, falling for the first time in seven months and against market expectations of a 0.3% rise. However, the index was still 1.6% higher on the year, gaining from 1.2% in February, but short of market expectations of an increase to 2.4%.

Currency

Sterling depreciated against both the Euro and Dollar over the month.

March	Start	End	High	Low
GBP/USD	\$1.2654	\$1.2633	\$1.2882	\$1.2603
GBP/EUR	€1.1678	€1.1697	€1.1754	€1.1652

Interest Rate Forecasts

Link Group and Capital Economics still hold that Bank Rate will peak at 5.25% in this cycle.

Bank Rate	NOW	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Link Group	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%
Capital Economics	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-

Stevenage Borough Council

Current Investment List

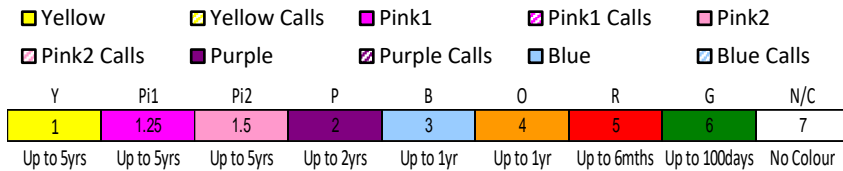
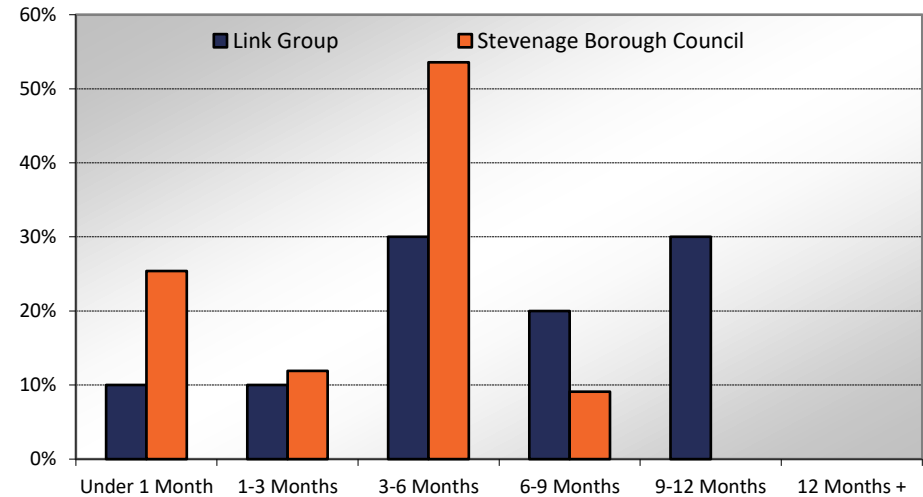
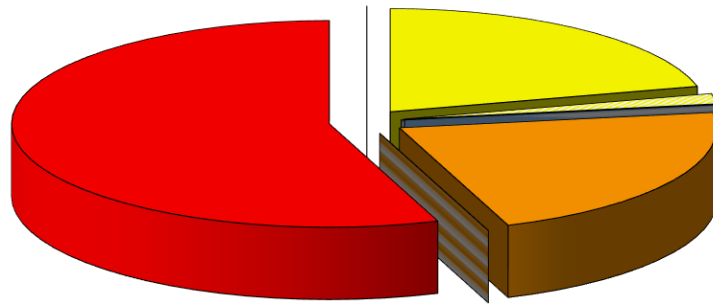
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	100,000	5.26%		MMF	AAAm		
MMF CCLA	100,000	5.15%		MMF	AAAm		
MMF Morgan Stanley	202,867	5.26%		MMF	AAAm		
Goldman Sachs International Bank	6,000,000	5.57%	16/10/2023	16/04/2024	A+	0.002%	116
Harlow District Council	3,000,000	5.95%	09/02/2024	10/06/2024	AA-	0.005%	0
Lloyds Bank Corporate Markets Plc (NRFB)	5,000,000	5.35%	05/01/2024	05/07/2024	A	0.012%	581
Lloyds Bank Corporate Markets Plc (NRFB)	3,000,000	5.32%	19/01/2024	19/07/2024	A	0.013%	400
Landesbank Hessen-Thuringen Girozentrale (Helaba)	3,000,000	5.96%	01/09/2023	30/08/2024	A+	0.018%	552
Landesbank Hessen-Thuringen Girozentrale (Helaba)	2,500,000	5.93%	05/09/2023	03/09/2024	A+	0.019%	472
Bury Metropolitan Borough Council	2,300,000	2.00%	18/05/2020	18/11/2024	AA-	0.015%	0
Total Investments	£25,202,867	5.29%				0.010%	£2,122

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2023 for Fitch, 1983-2023 for Moody's, S&P data was not available at the time of completion of this report..

Where Link Group have provided a return for a property fund, that return covers the 12 months to December 2023, which are the latest returns currently available.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 3.88

WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

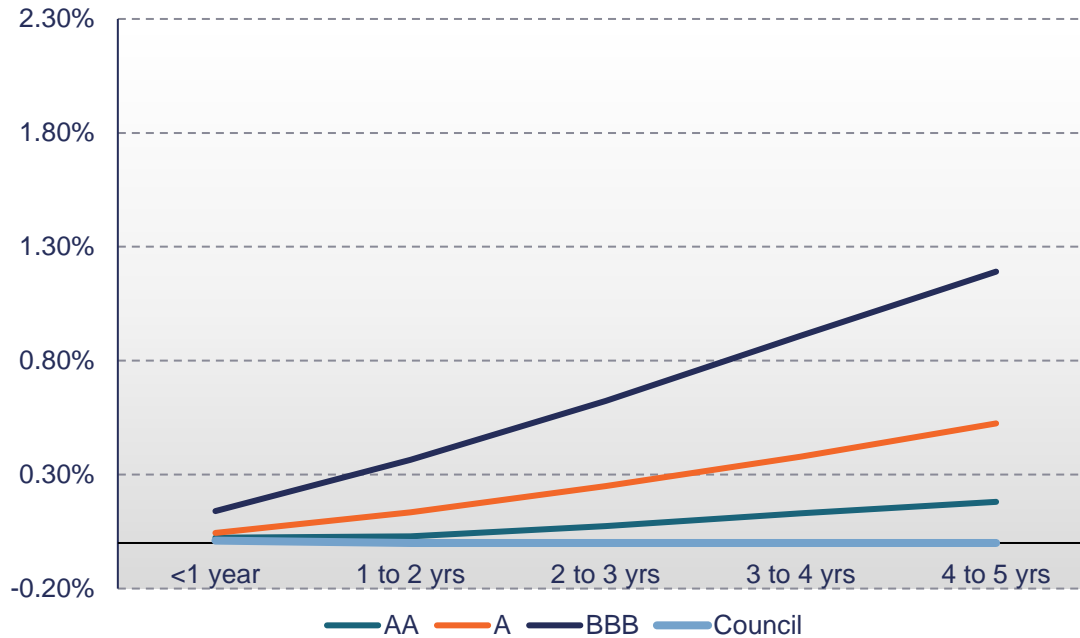
Excluding Calls/MMFs/USDBFs

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	22.63%	£5,702,867	7.06%	£402,867	1.60%	4.31%	131	728	141	783
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	21.82%	£5,500,000	0.00%	£0	0.00%	5.95%	154	364	154	364
Red	55.55%	£14,000,000	0.00%	£0	0.00%	5.44%	65	182	65	182
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£25,202,867	1.60%	£402,867	1.60%	5.29%	99	345	101	351

Stevenage Borough Council

Investment Risk and Rating Exposure

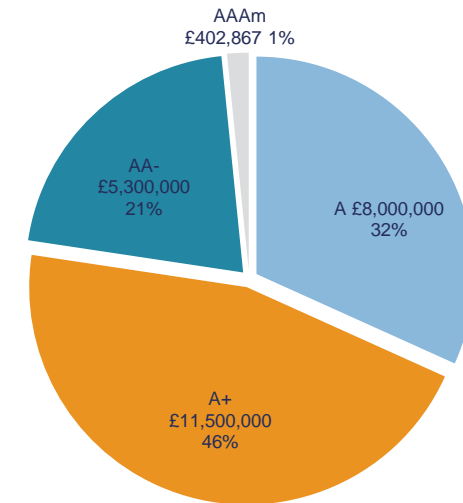
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.03%	0.07%	0.13%	0.18%
A	0.04%	0.13%	0.25%	0.38%	0.52%
BBB	0.14%	0.36%	0.62%	0.91%	1.19%
Council	0.01%	0.00%	0.00%	0.00%	0.00%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Stevenage Borough Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
20/03/2024	2010	Qatar	Qatar	The Sovereign Rating was upgraded to 'AA' from 'AA-'. The Outlook on the Sovereign Rating was changed to Stable from Positive.
22/03/2024	2011	Clydesdale Bank PLC	United Kingdom	The Short Term Rating was placed on Postive Watch.
25/03/2024	2015	United Kingdom	United Kingdom	The Outlook on the Sovereign Rating was changed to Stable from Negative.
28/03/2024	2016	Qatar National Bank	Qatar	The Long Term Rating was upgraded to 'A+' from 'A'. The Outlook on the Long Term Rating was changed to Stable from Positive.

Stevenage Borough Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/03/2024	2003	National Australia Bank Ltd.	Australia	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
06/03/2024	2003	Westpac Banking Corp.	Australia	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
06/03/2024	2003	Australia and New Zealand Banking Group Ltd.	Australia	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
06/03/2024	2003	Commonwealth Bank of Australia	Australia	The Stable Outlook on the Long Term Rating was removed. The Long Term Rating was placed on Positive Watch.
06/03/2024	2003	Macquarie Bank Ltd.	Australia	The Long Term Rating was upgraded to 'Aa2' from 'A1'.
08/03/2024	2004	Clydesdale Bank PLC	United Kingdom	The Outlook on Long Term Rating was changed to Positive from Stable.
12/03/2024	2005	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'Baa3' from 'Ba1' and the Short Term Rating was upgraded to 'P-3' from 'NP'.
15/03/2024	2006	Bayerische Landesbank	Germany	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
15/03/2024	2007	Landesbank Hessen-Thuringen Girozentrale	Germany	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
15/03/2024	2008	Norddeutsche Landesbank Girozentrale	Germany	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
15/03/2024	2009	Landesbank Baden-Wuerttemberg	Germany	The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.
22/03/2024	2012	Skandinaviska Enskilda Banken AB	Sweden	The Outlook on the Long Term Rating was changed to Positive from Stable.
22/03/2024	2014	Clydesdale Bank PLC	United Kingdom	The Positive Outlook on the Long Term Rating was removed. The Long Term Rating and Short Term Rating were placed on Positive Watch.

Stevenage Borough Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
22/03/2024	2013	Clydesdale Bank PLC	United Kingdom	The Stable Outlook on the Long Term Rating was removed. The Long Term Rating and Short Term Rating were placed on Positive Watch.

Whilst Link Group makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

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Appendix B: Approved countries for investments as of 31.03.24

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- U.K.

THIS LIST IS AS AT 05.04.24

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