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AUDIT COMMITTEE

Date: Wednesday, 6 November 2024

Time: 6.00pm,

Location: Council Chamber - Daneshill House, Danestrete

Contact: Lisa Jerome

Lisa.jerome@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 4 September 2024.

Pages 3 – 6

3. EXTERNAL AUDIT 2023/24 - PROGRESS REPORT

REPORT TO FOLLOW.

4. SAFS - ANTI-FRAUD PROGRESS REPORT

To receive 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.

Pages 7 – 12

5. MID-YEAR REVIEW OF TREASURY MANAGEMENT STRATEGY 2024-25

To receive an update on the Treasury Management activities in 2024/25 and review effectiveness of the 2024/25 Treasury Management and Investment Strategy including the 2024/25 prudential and treasury indicators.

Pages 13 – 32

6. URGENT PART 1 BUSINESS

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

7. 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.

8. STRATEGIC RISK REGISTER

To receive the latest Strategic Risk Register for Stevenage Borough Council

Pages 33 – 44

9. ICT UPDATE

To receive a presentation from the Assistant Director Shared ICT Partnership.

10. PART II MINUTES OF PREVIOUS MEETING

To consider the Part II Minutes of the previous meeting held on 4 September 2024.

Pages 45 – 46

11. URGENT PART II BUSINESS

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

STEVENAGE BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

Date: Wednesday, 4 September 2024

Time: 7.00pm

Place: Council Chamber - Daneshill House, Danestrete

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

Start / End Start Time: 7.00pm
Time: End Time: 7.55pm

1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies for absence or declarations of interest.

2 MINUTES OF PREVIOUS MEETING

It was **RESOLVED** that the Minutes of the meeting of the Audit Committee held on 4th June 2024 be approved as a correct record and signed by the Chair.

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

The Committee considered an annual report in respect of the Shared Anti-Fraud Service (SAFS) and an update on the current year's work.

The report included a detailed account of all anti-fraud activity during 2023/24. It was explained the Council and SAFS work continuously with a close partnership and much of the work reported was undertaken or supported by Council officers. The report reflected the Councils positive and robust approach to dealing with fraud, this included reactive and proactive activity and the use of technology and current best practice to prevent fraud occurring.

The Committee was advised that 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. Reporting of suspected fraud by staff and the public was good and indicated that staff knew their fraud risks and when to report their suspicions and that the public had confidence in reporting matters to the Council.

Councillors queried what were the overall impacts of the service provided by SAFS on the fraud the council experienced. In response to the question the officer stated that it was difficult to determine the impact solely on statistics because officers had

received training on how to identify and report fraud cases and an increased amount of fraud cases could be as a result of more detection. It was explained that SAFS were determined to ensure a good level of service and had increased members of staff on their team to reflect this.

RESOLVED:

- a) That activity undertaken by the Shared Anti-Fraud Service (SAFS) to deliver the 2023/2024 Anti-Fraud Plan for the Council be noted.
- b) That all Anti-fraud activity undertaken by Council Officers and SAFS to protect the Council and the public funds it administers be noted.

PROGRESS WITH SAFS ANTI-FRAUD PLAN 2024/25

This item was considered as part of the previous item.

RESOLVED:

- a) That the progress by officers and the Shared Anti-Fraud Service to deliver the Anti-Fraud Plan for the Council be noted.

4 PROGRESS WITH SAFS ANTI-FRAUD PLAN 2024/25

This item was considered as part of the previous item.

RESOLVED:

- a) That the progress by officers and the Shared Anti-Fraud Service to deliver the Anti-Fraud Plan for the Council be noted.

5 INTERNAL AUDIT PLAN 2024/25 - PROGRESS REPORT

Simon Martin (SIAS) presented the Internal Audit Plan 2024/25 Progress Report to the committee. The report provided 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 and a briefing paper on the revised Global Internal Audit Standards. 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. It was noted that this was the first update report for 2024/25.

It was explained that as of 16 August 2024, 32% of the 2024/25 Internal Audit Plan days had been delivered (the calculation excluded contingency days that had not yet been allocated).

Members discussed whether the committee should receive details of any medium priority internal audit recommendations, in addition to the critical and high priority recommendations already received. At the conclusion of that discussion, it was decided that medium priority recommendations should be added to the schedule going forward.

RESOLUTION:

- a) That the Internal Audit Progress Report be noted
- b) That the Internal Audit Plan Changes be approved
- c) That the Status of Critical and High Priority Recommendations be noted
- d) That the Global Internal Audit Standards Briefing paper be noted
- e) That a standing item be added to each agenda to analyse the effectiveness of the Audit Committee

6 ANNUAL TREASURY MANAGEMENT STRATEGY - REVIEW OF 2023/24

Brian Moldon (Assistant Director Finance) presented the Annual Treasury Management Strategy – review of 2023/24 to the committee. The purpose of the report was to review the operation of the 2023/24 Treasury Management and Investment Strategy. 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.

The Assistant Director of Finance confirmed that there have been no breaches in the Prudential Indicators and that all temporary investments were carried out in line with the Treasury Management Strategy.

RESOLVED:

- a) That the 2023/24 Annual Treasury Management Review be recommended to Council for approval.

7 URGENT PART 1 BUSINESS

There was no urgent part 1 business.

8 EXCLUSION OF PUBLIC AND PRESS

It was **RESOLVED:**

- 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 involved the likely disclosure of exempt information as described in paragraphs 1 to 7 of Part 1 of Schedule 12A of the Act, as amended by SI 2006 No. 88.

2. That having considered the reasons for the following item being in Part II, it be determined that maintaining the exemption from disclosure of the information contained therein outweighed the public interest in disclosure.

9 **INTERNAL AUDIT PLAN 2024/25 - PROGRESS REPORT**

It was **RESOLVED** that the recommendations be noted.

10 **STRATEGIC RISK REGISTER**

It was **RESOLVED** that the Strategic Risk Register had been noted.

11 **URGENT PART II BUSINESS**

There was no urgent Part II business.

CHAIR



Stevenage Borough Council

Audit Committee

November 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 provides assurance that the council continues to benefit from a positive return on its investment in the SAFS Partnership.

2024/2025 Anti-Fraud Activity

Prevention

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 provides alerts about new and emerging fraud trends through its Board members and directly with officers working in all of 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 September this year SFAS issued 22 Urgent Fraud Alerts including impersonation/ push payments/ payment diversion/ false identities used in various application frauds. SAFS also provides regular Fraud Threat Reports that summarise new and emerging risks and provide officers with guidance for the identification and prevention of these. SAFS have issued three Threat reports so far this year focused on Multiple Employment fraud, 'Overpayments' 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. Seven specialised training events (including ID fraud, BB abuse, contract/bid-rigging provided by the Competitions and Markets

Authority) have already been delivered, and we have further sessions planned for Q3 on general fraud awareness for staff. SAFS delivered a fraud awareness session for Members in September and a number of the Audit Committee attended this.

9. Across of our partners SAFS provides Executive Reports to senior management and internal audit where investigations identify that fraud or attempted fraud occurred due to system/process weaknesses, SAFS also provides recommendations for management to consider the removal/reduction/mitigation of any ongoing fraud risk. We have issued one ER for Council so far this year focused on the fraud risks associated with the use of external recruitment or temporary staff providers, all recommendations made by SAFS have been accepted and implemented.

Reactive Work

10. Between April and end of September 2024 94 allegations of fraud have been received by the Council/SAFS affecting service areas such as housing, council tax, procurement and Blue Badge abuse. SAFS currently have 70 cases under investigation, or at referral stage (39), with estimated losses of £1.3m recorded in this caseload. Fifteen investigations have been closed and fraud losses/savings in five cases totalling £107k recorded. SAFS have also conducted reviews of 13 low value council tax frauds identifying £7k of loss in council tax.
11. Two cases have been referred to the Councils legal team to consider prosecution that involve fraud that was identified in 2023/24. These are both significant cases with high losses for the Council and will take some time to resolve through the court process. In three cases of alleged council tax fraud financial penalties were applied as alternatives to prosecution.
12. As well as working with the Councils housing services SAFS continues to work with registered housing providers to investigate allegations of 'tenancy-fraud' committed against the social housing stock within the Councils boundaries. Currently four such cases are being investigated and one property has been recovered within the Councils area.
13. SAFS has received more than 40 allegations relating to the misuse of its housing stock or right to buy (RTB) applications. So far this year working closely with officers in Housing Services SAFS officers have assisted in the recovery of 2 properties that were being illegally sub-let and a number of other properties are awaiting possession for similar allegations of misuse.

Proactive Work

14. SAFS officers have reviewed 41 RTB applications and 21 Succession applications to ensure that there was no fraud or money laundering concerns with these.
15. At the time of writing SAFS and Council officers are 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/February 2025.

16. The Council is signed up the Herts Fraudhub for the current year. The FraudHub works in a similar fashion to the main NFI exercise with data being submitted along with the other SAFS partners to help identify fraud through data-analysis/matching. In Q1 and Q2 all agreed datasets were successfully uploaded. So far the FraudHub has identified in excess of 400 records for review, SAFS and Council officers are reviewing these at present, with a small number of frauds/discrepancies already identified. A further 700+ matches relating to council tax discount will be added to Council Tax Review Framework mentioned below.
17. 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 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.
18. In June this year SAFS collaborated with Councils across Hertfordshire, Buckinghamshire and Oxfordshire to provide a campaign with civil enforcement teams to tackle the twin problem of Blue Badge theft and the misuse of borrowed or stolen badges in car parks owned by Councils. In Hertfordshire SAFS also engaged with Hertfordshire Constabulary and joint patrols, with SAFS Police and Council CEOs officers all involved, were conducted through June targeting known hotspots for Blue Badge misuse. As a result of this work we are now developing an MOU between the County Council, SAFS, contracted out CEO services, local parking enforcement teams and the police to deter and prevent the misuse of Blue Badges across the County.

SAFS Performance

19. SAFS KPIs were agreed in the Anti-Fraud Plan, progress is reported below.

SAFS KPIs - 2024/ 2025- (SBC)

KPI	Measure	Objectives	Performance to October 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. B. Executive Director (Finance and Transformation) is a member of the SAFS Board and attends its quarterly meetings. C. SAFS meet with other service leads across the Council with a focus on high 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. 	<ul style="list-style-type: none"> A. To the end of September 2024 SAFS had provided 235 days (54%) of those planned for the year.

		<p>B. 3 Reports to Audit Committee.</p> <p>C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings.</p>	<p>B. 3 reports in all will be delivered in 24/25 at the September/November/ March AC meetings.</p> <p>C. SAFS continues to attend CGG and JAG meetings at SBC.</p>
3	Action on reported fraud.	<p>A. SAFS response to all urgent/ high risk cases within 1 working day.</p> <p>B. All other cases 2 Days on Average.</p>	<p>In Q1 SAFS responded to 100% of referrals within 24 hours on average. (We are still unable to report separately on Urgent cases)</p>
4	Added value of SAFS membership.	<p>A. Membership of NAFN & PNLD</p> <p>B. Access to CIPFA/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. SBC via SAFS are subscribed to NAFN/PNLD</p> <p>B. All access to best practice sites are in place.</p> <p>C. NAFN access and training for officers is in place for 24/25</p> <p>D. 7 Sessions delivered in Q1/Q2, with 3 more planned for Q3.</p>
5	Allegations of fraud. & And outcomes from 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 or sub-letting.</p> <p>D. 100% Review of all Right to Buy and 'Succession' applications.</p>	<p>A. Fraud reporting options available for staff and residents on the Council's webpage and intranet- This is linked to SAFS reporting tools.</p> <p>B. All cases with reports/values/outcomes recorded on SAFS CMS.</p> <p>C. 2 properties recovered with several pending recovery at the time of reporting.</p> <p>D. 100% review of all RTBs and Successions.</p>
6	Making better use of data to prevent/identify fraud.	<p>A. Support the output from NFI 2024/25 Council services.</p> <p>B. Membership and VFM from the Herts FraudHub in 2024/25.</p>	<p>A. The NFI data-upload is planned for October with plans to review output from January.</p> <p>B. The Council has a contract in place for the FHub and data is being uploaded and output under review with Council officers.</p>

Further Reading

20. 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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**AUDIT COMMITTEE/ CABINET
/ COUNCIL**

Portfolio Area: Resources and Transformation

Date: 6 November 2024 /
13 November 2024 /
18 December 2024



2024/25 MID YEAR TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS

NON-KEY DECISION

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

1 PURPOSE

1.1 To update Members on the Treasury Management activities in 2024/25 and review effectiveness of the 2024/25 Treasury Management and Investment Strategy including the 2024/25 prudential and treasury indicators.

2 RECOMMENDATIONS

2.1 Audit Committee

That subject to any comments by the Audit Committee to the Cabinet, the 2024/25 Mid-Year Treasury Management Review and Prudential indicators reports is 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 2024/25 Mid-Year Treasury Management Review and Prudential indicators report is recommended to Council for approval.

2.3 Council

That subject to any comments from the Audit Committee and the Cabinet, 2024/25 Mid-Year Treasury Management Review and Prudential indicators report be approved by Council.

3 BACKGROUND

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

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

Accordingly, treasury management is defined as:

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

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

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

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

3.1.4 In December 2021, 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;
- 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 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

3.2 Economics and interest rates

3.2.1 Economics update.

3.2.2 The first half of 2024/25 saw:

- GDP growth stagnating in July following 0.5% growth in the three months to July.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August then falling to 1.7% in September;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

3.2.3 10-year Gilt yield movements in the first half of 2024/25, declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by

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only 5bps after the announcement. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

3.2.4 Interest Rate Forecasts

3.2.5 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate* (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

3.2.6 The Bank cut base rates by 25bps rate cut in August, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, opted to hold rates steady at 5.0%, signalling a preference for a gradual approach to rate cuts.

3.2.7 The latest forecast (Link 10 October) sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, as the Bank of England continues to prioritise controlling inflation.

Chart 1

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

* Certainty Rate reduction HRA – 0.6% is not included above

4 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1.1 The Treasury Management Strategy was approved by Council on 21 February 2024. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.2 The Council’s Capital Position (Prudential Indicators).

4.2.1 This part of the report is structured to update:

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

4.2.2 Prudential Indicator for Capital Expenditure and changes to Financing of the Capital Programme.

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4.2.3 The table below shows the revised estimates for capital expenditure and financing and the changes since the capital programme was agreed at the Budget. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 1 Capital Expenditure and Financing			
	Original Capital Strategy (Council February 2024)	Revised Capital Strategy Q2	Movement¹
	£'000	£'000	£'000
Capital Expenditure:			
General Fund Capital Expenditure	33,558	25,919	(7,639)
HRA Capital Expenditure	54,831	31,662	(23,169)
Total Capital Expenditure	88,389	57,581	(30,808)
Financed by:			
Capital Receipts	(7,945)	(16,947)	(9,002)
Capital Grants /Contributions	(33,542)	(9,949)	23,593
Capital Reserves	(654)	(0)	654
Revenue contributions	(7,055)	(4,167)	2,888
Major Repairs Reserve	(20,417)	(18,671)	1,746
Total Financing	(69,613)	(49,734)	19,879
Borrowing requirement	18,776	7,847	(10,929)

4.2.4 The General Fund net reduction of £7.6Million includes:

- Re-phasing of £10.4Million of 2023/24 budgets into 2024/25 across all services.
- Re-phasing of £17Million capital budgets in from 2024/25 into future years. Details are included in the quarterly monitoring reports referred to below.

4.2.5 The HRA net reduction of £23Million is due to re-phasing of the Housing Development and investment budgets. The current phasing is detailed in the HRA MTFS report in the meeting agenda.

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

¹ This movement differs from that reported in the quarterly Capital Monitoring reports as that report uses the latest budget rather than the original as a comparator.

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

Prudential Indicator – Capital Financing Requirement and the Operational Boundary for external debt.

Table 2	2024/25 Original Estimate Council February 2024 £'000	Current Position £'000	2024/25 Revised Estimate Mid- Year £'000
CFR – non housing	63,370	59,524	59,256
CFR – housing	284,060	272,384	272,384
Total CFR	347,430	331,908	331,640
Net movement in CFR			(15,790)

4.3.2 The net movement in the CFR relates mainly to the re-phasing of the HRA capital programme funded by borrowing into future years as part of the revised HRA MTFS.

4.4 Limits to Borrowing Activity

4.4.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years.

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

Table 3 Authorised limits	Operational Boundary £'000	Authorised Limit £'000	Actual External Debt 30/09/2024 £'000
General Fund ²	70,904	82,904	25,704
Housing WOC	15,000	16,800	0
Total General Fund	85,904	99,704	25,704
HRA	288,060	292,060	246,231
Total Debt	373,964	391,764	271,935
CFR (projected year-end position)			331,640

4.4.3 A temporary breach of the operational boundary is permissible for short term cash flow purposes however a breach of the authorised limit would require a report to Council. There have been no breaches of either limit in the period for 2024/25.

4.5 Borrowing

4.5.1 The Council's capital financing requirement (CFR) for 2024/25 is £334Million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3 shows the Council has borrowings of £272Million and has utilised £62Million of cash flow funds in lieu of borrowing (Current CFR less total current debt). This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

4.5.2 Capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. The Council borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

4.5.3 External borrowing of a total £13Million from the PWLB was taken out - 17 April 2024 (£7.5m) for a period of 21 years at 4.87%, and 2 July 2024 (£5.5m) for a period of 21 years at 4.88%. This funding replaced internal borrowing used to fund the HRA and did not increase the overall CFR for the HRA.

4.5.4 It is anticipated that further borrowing will be undertaken during the financial year in line with financing in table 1 above.

4.5.5 Borrowing rates from PWLB are based on Gilt yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields and Bank Rate, inflation expectations and movements in US treasury yields.

4.5.6 Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

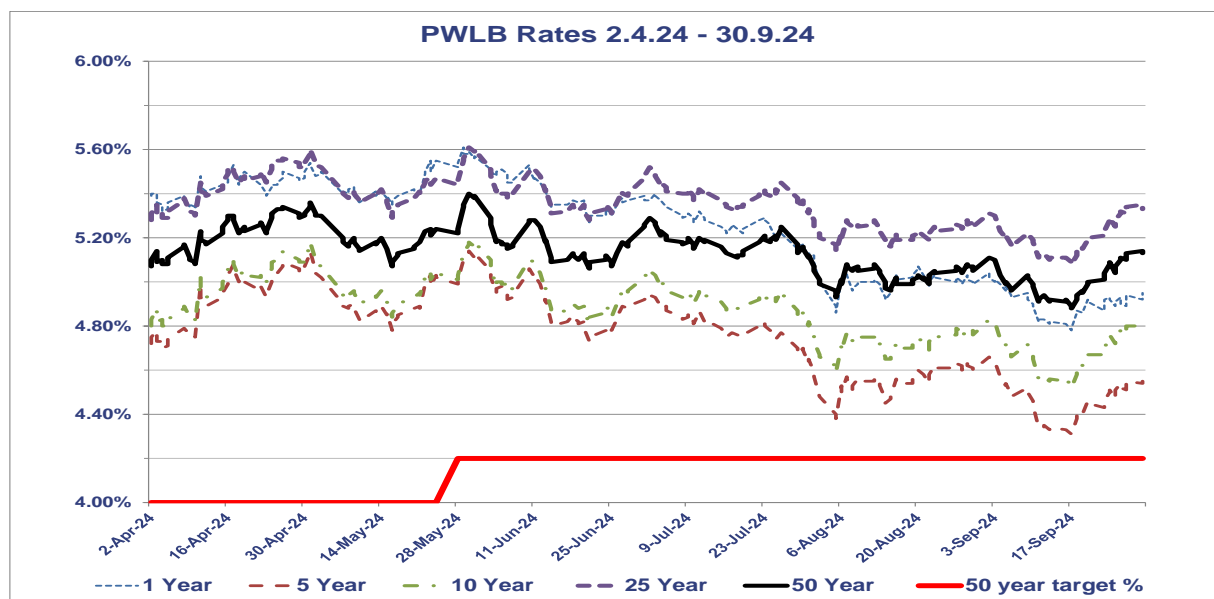
² Includes Finance Lease

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4.5.7 Rates are forecast to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, (however the CPI for September was announced on the 16 October 2024 at 1.7%), and 50-year rates are expected to stand at 4.20% by the end of September 2026. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

4.5.8 The Chart below shows the volatility of the PWLB borrowing rates from 2 April 2024 to 30 September 2024.

Chart 2



4.6 Compliance with Treasury and Prudential Limits

4.6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024 the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2024/25. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

4.7 Annual Investment Strategy

4.7.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council’s investment priorities as being:

- Security of capital
- Liquidity

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- Yield

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

4.7.3 There were no breaches to this policy in the year to 30 September 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 possible that surplus funds that may be borrowed during 2024/25 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.

Creditworthiness

4.7.4 The UK's sovereign rating has proven robust through the first half of 2024/25. The Government is expected to outline in detail its fiscal proposals in the Budget scheduled for 30 October 2024.

Investment Counterparty criteria

4.7.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. Countries included are those where relevant banks are active in Sterling markets.

4.7.6 The Specified and Non-Specified Investment Criteria (Appendix C) have been reviewed and updated in the Treasury Management Strategy 2024/25 which was agreed at Full Council in February 2024 and no further amendments are proposed at this stage.

4.8 Investment performance year to date as of 30 September 2024

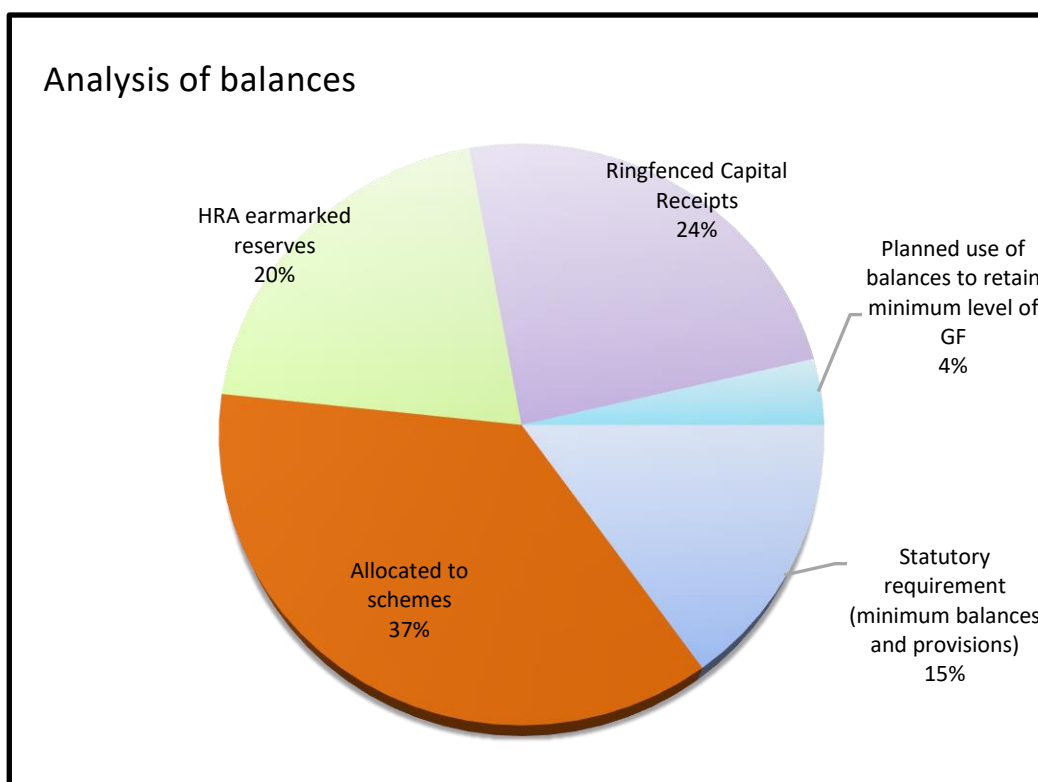
4.8.1 The Council's current investment portfolio consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix C).

4.8.2 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.

4.8.3 The average level of funds available for investment purposes during the first half of the financial year was £51.6Million, earning an average interest rate of 5.1%. Interest earned to 30 September 2024 was £1.1Million. Projected investment balances at 31 March 2025 are currently £37Million and forecast external interest receivable from investments is currently £2.2Million against a working budget of £1.9Million, contributing to General Fund (£284k) and Housing Revenue Account revenue income (£31k).

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- 4.8.4 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 and debt repayment.
- 4.8.5 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 five years and the HRA Business Plan (HRA BP) a planned use of resources over a thirty year period, which means, while not committed in the current year; they are required in future years.
- 4.8.6 The following chart shows the planned use of cash balances as at 30 September 2024.



- 4.8.7 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 £39.4Million as at 30 September 2024 is not available for new expenditure (for details see Appendix B).

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is of a financial nature and reviews the treasury management function for 2024/25 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

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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, however where there are changes to the Prudential and Treasury Management codes from 2024/25. Officers will ensure that any changes are reflected in treasury operations and reporting requirements.

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 There remains uncertainty on the long-term implications of exiting the EU on the UK economy and borrowing rates. Officers monitor interest rate forecasts to inform the timing of borrowing decisions.

5.3.3 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

5.3.4 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.

5.3.5 There is a risk to the HRA BP's ability to fund the approved thirty year spending plans if interest rates rise above budgeted rates. Mitigation is included in the revision to the BP since 2023, including requiring higher levels of reserves to be maintained in the medium term to cover interest rate risks.

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

5.5.1 The council's investment portfolio is sterling investments and not directly in companies. However the TM team continue to review the use of Money Market funds to ensure, where possible, money market funds that invest in environmentally sustainable companies are used. In this way the TM team aligns with the Councils ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2024/25 (Council 21 February 2024)
- BD2 Quarter 1 Revenue and Capital Monitoring Report – General Fund and HRA (Cabinet 18 September 2024)
- BD3 Quarter 2 Revenue and Capital Monitoring Report – General Fund and HRA (Cabinet 13 November 2024)
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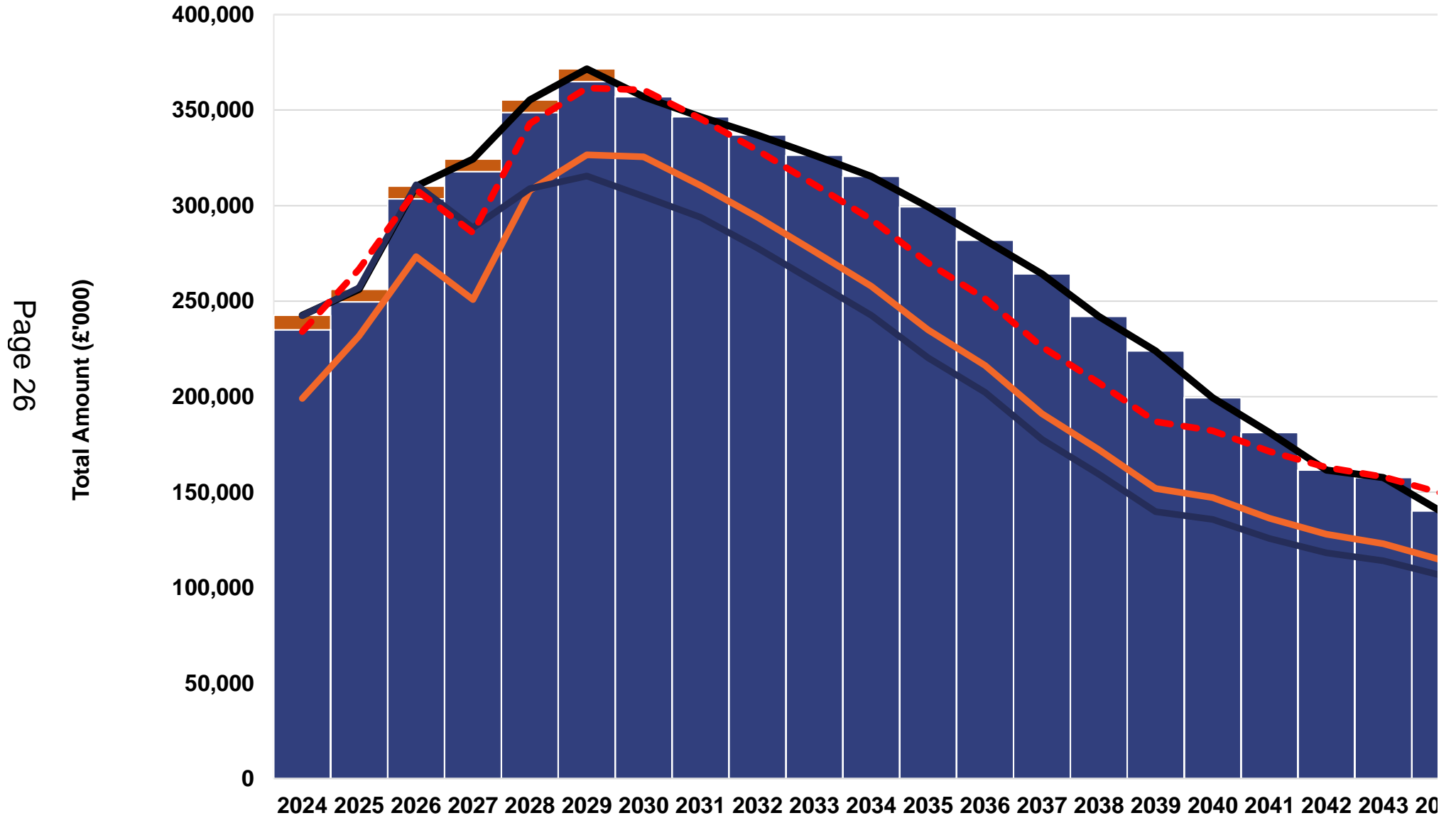
APPENDICES

- Appendix A Prudential Indicators
- Appendix B Investment Portfolio
- Appendix C Country Counterparty List 30 September 2024
- Appendix D Specified and Non-specified Criteria

Comparison of borrowing parameters to actual external borrowing.

	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	3	4	5	6	7	8	9
Financial Year End 31 March	2024	2025	2026	2027	2028	2029	2030
PWLB Loans	234,987	249,597	303,570	317,742	348,702	364,982	356,982
Market Loans (excl LOBO loans)	7,570	6,570	6,570	6,570	6,570	6,570	0
Existing Loan Debt Outstanding	242,557	256,167	310,140	324,312	355,272	371,552	356,982
Opening Loan Debt	235,057						
Less: opening treasury investments	(43,285)	(25,202)	(36,603)	(36,603)	(36,603)	(35,000)	(35,000)
Plus: planned prudential borrowing	7,500	14,610	54,473	14,172	30,960	16,280	
Less: MRP & Capital Receipts set aside	(212)	(247)	(282)	(317)	(352)	(387)	(422)
+/- other forecast cashflows Pwlb repaid		0	(500)	(36,624)	(10,456)	(9,600)	(10,600)
Net Loans Requirement (forecast net loan debt)	199,060	231,718	273,255	250,768	307,861	326,565	325,530
Opening Loans CFR	234,880						
Plus: planned Prudential Borrowing	7,500	14,610	54,473	14,172	30,960	16,280	0
Less: MRP & Capital Receipts set aside	(35)	(35)	(535)	(36,659)	(10,491)	(9,635)	(10,635)
Loans CFR	242,345	256,920	310,858	288,371	308,840	315,485	304,850
Liquidity allowance above net debt (liquidity buffer)	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Liability Benchmark (Gross Loans Requirement)	234,060	266,718	308,255	285,768	342,861	361,565	360,530
Forecast Investments	35,000	35,000	35,000	35,000	35,000	35,000	35,000
(Over)/Under Liability Benchmark	(8,497)	10,551	(1,885)	(38,544)	(12,411)	(9,987)	3,548

Liability Benchmark



Country	Institution	Instrument Type	Start	Maturity	Yield	Principal
AUS	Australia and New Zealand Banking Group Ltd	Fixed Term Deposit	02/09/2024	16/12/2024	4.98%	£3,000,000
	Australia and New Zealand Banking Group Ltd	Fixed Term Deposit	03/09/2024	20/12/2024	5.01%	£2,500,000
	Australia and New Zealand Banking Group Ltd	Fixed Term Deposit	19/07/2024	20/01/2025	5.22%	£3,000,000
						£8,500,000
GER	Landesbank Hessen-Thuringen Girozentrale	Fixed Term Deposit	11/06/2024	11/03/2025	5.24%	£3,000,000
						£3,000,000
GBR	Goldman Sachs International Bank	Fixed Term Deposit	17/04/2024	17/10/2024	5.37%	£6,000,000
	Lloyds Bank Plc (RFB)	Fixed Term Deposit	05/07/2024	07/10/2024	5.21%	£3,000,000
	Lloyds Bank Plc (RFB)	Fixed Term Deposit	05/07/2024	25/03/2025	5.16%	£2,000,000
	Bury Metropolitan Borough Council	Fixed Term Deposit	18/05/2020	18/11/2024	2.00%	£2,300,000
						£13,300,000
MMF	MMF Aberdeen	Money Market Fund			5.02%	£10,000,000
	MMF CCLA	Money Market Fund			4.92%	£4,300,000
	MMF Morgan Stanley	Money Market Fund			5.01%	£303,000
						£14,603,000
Total						£39,403,000

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APPENDIX 3: Approved Countries for Investments as of 30 September 2024

Clients may wish to draw the attention of members to any changes to their approved list of countries for investments since their last report to members.

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 (upgraded from AA- 20/3/24)

AA-

- Belgium
- France
- **U.K.**

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

Table 1

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

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

Table 2

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

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

Table 3

Treasury Limits

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

Procedures of Applying the Criteria and Limits

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

- 1** Check that the Counterparty is on the Counterparty List (also known as Current Counterparty Report for Stevenage) produced by Link Asset Services (LAS), specifically meeting the Council's Specified and Non-specified Minimum High Credit Quality Criteria in the above Table 1 & 2. If it is not on the list, the Treasury Team will not invest with them.
- 2** If the Counterparty is on the list, then the Treasury Team refers to the Credit List produced by LAS in colour coding, to determine the maximum investment duration suggested for the deposit, as per the column of Suggested Duration (CDS Adjusted with manual override).
- 3** Refer to the Treasury Limits in the above Table 3 to ensure the amount invested complies with the Treasury Limits.

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

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