



Please ask for: Matt Berry
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15 March 2023

Dear Councillor,

Audit & Governance Committee

5:00pm, Thursday 23 March 2023

Esperance Room, Civic Centre, Beecroft Road, Cannock

You are invited to attend this meeting for consideration of the matters itemised in the following Agenda.

Yours sincerely,

T. Clegg
Chief Executive

To: Councillors

Jones, P.G.C. (Chair)
Kraujalis, J.T. (Vice-Chair)
Beach, A. Jones, P.T.
Crabtree, S.K. Kruskonjic, P.
Hoare, M.W.A.

Agenda

Part 1

1. Apologies

2. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

To declare any personal, pecuniary, or disclosable pecuniary interests in accordance with the Code of Conduct and any possible contraventions under Section 106 of the Local Government Finance Act 1992.

3. Minutes

To approve the Minutes of the previous meeting held on 29 November 2022 (enclosed).

4. Internal Audit Progress Report - February 2023

Report of the Chief Internal Auditor & Risk Manager (Item 4.1 - 4.8).

5. Internal Audit Plan 2023-24

Report of the Chief Internal Auditor & Risk Manager (Item 5.1 - 5.9).

6. Annual Treasury Management Report 2021-22

Report of the S151 Officer & Deputy Chief Executive (Item 6.1 - 6.11).

Cannock Chase Council
Minutes of the Meeting of the
Audit and Governance Committee
Held on Tuesday 29 November 2022 at 6:00pm
In the Council Chamber, Civic Centre, Cannock
Part 1

Present:
Councillors

Jones, P.C.G. (Chair)
Hoare, M.W.A. Kruskonjic, P.
Jones, P.T.

8. Apologies

Apologies were submitted for Councillors J.T. Kraujalis (Vice-Chair), A. Beach, and S.K. Crabtree.

Apologies were also noted for A. Sohal, External Auditor.

9. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

No Declarations of Interests were made in addition to those already confirmed by Members in the Register of Members' Interests.

10. Minutes

That the Minutes of the meeting held on 27 July 2022 be approved.

11. Internal Audit Progress Report - November 2022

Consideration was given to the Report of the Chief Internal Auditor & Risk Manager (Item 4.1 - 4.11).

The Chief Internal Auditor & Risk Manager raised the following points in respect of the report:

- The update covered the period 1 April to 31 October to provide a more complete picture of the year-to-date position. The table at report paragraph 5.3 set out the assurance ratings given to audits completed during this period.
- Appendix 1 set out the number of audits completed or in draft form, and it was envisaged there would be no issues with achieving the planned number of audits for the full year.

- Appendix 2 provided further details on the assurance ratings given for the audits completed so far, with specific attention being drawn to the 'Change Control' audit that had been given only a limited assurance for the reasons set out.
- Appendix 3 listed those audits that were currently in progress, the outcomes of which would be reported to future meetings of the Committee.
- Appendix 4 set out details of follow-up audits completed. The 'Cyber Network & Security' revised assurance rating should be marked as partial, not limited.

In response to a query from a Member as to whether the cyber network & security issues were down to individuals having remote access to systems, the Chief Internal Auditor & Risk Manager advised that the main issue was staff not having completed the cyber awareness and data protection training. Council policy stated that in such circumstances access to systems should be removed. The training was required to be undertaken annually, therefore this matter would be further reviewed once the next round of training had been delivered. The Head of Governance and Corporate Services further advised that removal of access to Council systems from personally owned IT equipment still needed to be progressed.

The Chair noted concern with the limited assurance for the change control audit and hoped to see this improve in the next update. The Chief Internal Auditor & Risk Manager advised that work was underway to improve this rating, but Members would be advised if no progress had been made and look to take action accordingly.

Resolved:

That the progress report be noted.

12. Strategic Risk Register

Consideration was given to the Report of the Head of Governance and Corporate Services (Item 5.1 - 5.23) *(presented by the Chief Internal Auditor & Risk Manager)*.

The Chief Internal Auditor & Risk Manager raised the following points in respect of the report:

- The report had previously been considered by Cabinet on 10 November and the Committee was being asked to review progress on delivering the actions against each strategic risk and make comment.
- Report paragraph 3.1 set out that the number and rating of risks as at 30 September was unchanged from 1 April.
- Report paragraph 5.7 advised that the score for the finance related risk had increased and provided a narrative. All other risks scores remained unchanged, the summary position for which was set out in Appendix 1, with the detailed action plans provided in Appendix 2.

Resolved:

That the Strategic Risk Register and progress made in the identification and management of the Strategic Risks be noted.

13. Internal Audit External Quality Assessment 2022

Consideration was given to the Report of the Head of Governance and Corporate Services (Item 6.1 - 6.34).

The Head of Governance and Corporate Services raised the following points in respect of the report:

- The Council had a responsibility to commission an external review of its internal audit function at least every 5 years ensure compliance with Public Sector Internal Audit Standards.
- The outcome of the review had confirmed the service generally conformed to the standards and had a high standard of delivery compared to its peer group. The review report was positive about the team and the work of the Chief Internal Auditor.
- The review had also set out recommendations for consideration, some of which were deemed essential and others best practice suggestions. It was planned to implement the more formal recommendations within the next 12 months and the further suggestions thereafter. Progress would be reported to the Committee.
- As per one of the best practice recommendations, the Chairs of the Audit Committees at both Cannock Chase and Stafford Borough Councils would be invited to provide observations to the Head of Governance and Corporate Services on the performance of the Chief Internal Auditor prior to his annual performance appraisal.
- The internal audit team was in the process of implementing a new software system that would help with providing regular reports to Leadership Team where services were slow to put in place improvements identified in audits reports.

Resolved:

That:

- (A) The contents of the External Quality Assurance Report and the Action Plan agreed by the Chief Internal Auditor be noted.
- (B) The conclusion of the Assessor that the Internal Audit section “generally conforms” with the Public Sector Internal Audit Standards be noted.

14. Annual RIPA Review

Consideration was given to the Report of the Council Solicitor (Item 7.1 - 7.3) (*presented by the Head of Governance and Corporate Services*).

The Head of Governance and Corporate Services advised that the Council was required to report annually to the Committee on its use of powers under the Regulation of Investigatory Powers Act (RIPA). The Council had not used any such powers in the previous 12 months so there was nothing to make the Committee aware of on this occasion.

In response to a query from a Member as to whether officers with surveillance powers were regularly trained, the Head of Governance and Corporate Services advised this was the case and the Council was externally inspected from time-to-time to ensure training requirements were kept up to date. The Chief Internal Auditor & Risk Manager advised the Council also made use of an external company with fully trained staff to provide additional support for surveillance work where needed.

Resolved:

That the Report be noted.

15. External Auditor's Annual Report 2020/21

Consideration was given to the Report of the External Auditors (Item 8.1 - 8.24) *(presented by the Head of Governance and Corporate Services)*.

The Head of Governance and Corporate Services advised the report was being presented in a different format for the first time, noting that in related to the 2020/21 financial year but also made reference to more recent issues. The key areas looked at by the external auditors in preparing the report was set out on page 3. Overall the report presented a positive position.

The Head of Governance and Corporate Services advised that the 2021/22 accounts were still trying to be 'closed down', owing to issues with the finance system. As a result, the external auditors report would come forward in due course. A separate meeting of the Committee may need to be arranged to consider the finance specific reports before the next scheduled meeting in March 2023.

Resolved:

That the Report of the External Auditors be noted.

The meeting closed at 6:25 p.m.

Chair

Report of:	Chief Internal Auditor & Risk Manager
Contact Officer:	Stephen Baddeley
Contact Number:	01543 464 415
Report Track:	Audit & Governance Committee: 23/03/23

Audit & Governance Committee
23 March 2023
Internal Audit Progress Report - February 2023

1 Purpose of Report

- 1.1 To present to the Audit & Governance committee for information a progress report on the work of Internal Audit up to 28th February 2023

2 Recommendation(s)

- 2.1 That the Committee notes the progress report.

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 Attached is a progress report showing the audits which have been issued between 1st April 2022 and 28th February 2023.

Reasons for Recommendations

- 3.2 The report has been prepared for Members information.

4 Relationship to Corporate Priorities

- 4.1 The system of internal controls reviewed by Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities. Management are responsible for the control environment and should set in place policies, procedures, and controls to help ensure that the system is functioning appropriately.

5 Report Detail

- 5.1 This report is a summary of the Internal Audit work between 1st April 2022 and 28th February 2023 and is a report of progress against the audit plan. **Appendix 1** contains progress monitoring information.

- 5.2 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.
- 5.3 The table below gives a summary of the level of assurance for each of the audits completed in the period. More detailed information on each of the reports issued is contained in Appendix 1.

Number of Audits	Assurance	Definition
5	Substantial ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
1	Partial ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
2	Limited !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	No Assurance ✘	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	N/A	One piece of work was issued where it was not appropriate to issue an Assurance due to the narrow scope of the work

- 5.4 Appendix 2 lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.
- 5.5 Appendix 3 shows the follow-ups that have been issued in the period.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equality & Diversity

None

6.6 Climate Change

None

7 Appendices to the Report

Appendix 1: Progress Monitoring

Appendix 2: Audits Completed by 28 February 2023

Appendix 4: Audits In Progress at 28 February 2023

Appendix 4: Follow-ups completed by 28 February 2023




Progress Monitoring






Number of Audits in Plan for 2022-23	Audits Completed to Draft	Audits In Progress	Percentage of Plan In Progress or Completed to Date
29	17	9	90%

Level of Assurance	No Assurance	Limited	Partial	Substantial	N/A
Number of Audits Issued in Year to date	0	3	6	7	1

N/A is where the nature of the review did not enable an opinion to be issued on the area under review. This is normally where the focus is narrow or where a project is at an early stage of progress.

Audits Completed by 28 February 2023





Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
IT Third Party Supplier Management and External Data Sharing (including access controls)	Technology	Final	3	Limited 	<ul style="list-style-type: none"> Data Protection Impact Assessments, Risk Assessments and Signed Confidentiality Agreements were not always completed or available for third party data transfers. Policies need to be updated give clarity on when a Data Sharing Agreement is required and checks carried out that they are completed. Work is required to produce an IT Contracts register which can include information on data processing arrangements.
Asset Management Strategy & Records	Economic Development	Final	6	Limited 	<ul style="list-style-type: none"> The Council has recently produced a revised Asset Management Strategy but the underlying documents and records to support the delivery of the strategy still need to be produced. These include ensuring we have a comprehensive accurate asset register, condition surveys. There is a need to carry out detailed asset management reviews to ensure all items in the portfolio remain appropriate for the Council's objectives. There is a need to review asset management arrangements to replace the current split responsibilities with a Corporate Landlord approach
New Planning & Building Control Application Project	Economic Development	Draft	2	Partial 	<ul style="list-style-type: none"> The project did not follow a structured project management process and this was compounded by the length of time the software took to implement and the number of managers who had responsibility for the function during the project leading to project drift and a lack of oversight. There is a need to carry out a post implementation review to highlight lessons learnt for future projects.

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
National Non-Domestic Rates (2021-22)	Finance	Final		Substantial 	
Council Tax (2021-22)	Finance	Final		Substantial 	
Payroll	HR	Final		Substantial 	
IT Health Check / IT Assurance / Vulnerability Scanning / Cyber Assurance Arrangements	Technology	Final		Substantial 	
Leisure Contract Monitoring Arrangements	Environment & Healthy Lifestyles	Final		Substantial 	

Audits in Progress at 28 February 2023

Audit	Head of Service
Building Control	Economic Development
Disabled Facilities Grants	Environment & Healthy Lifestyles
Commonwealth Games Project	Environment & Healthy Lifestyles
Covid Business Grants	Finance
Housing Benefits	Finance
Procurement	Governance & Corporate Services
Agency Staff & Consultants Use	HR/Finance
Wireless Network Security	Technology
Critical Applications Security	Technology

Follow-ups Completed by 28 February 2023

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments & Key Outstanding Recommendations
Critical Information Systems Not Supported (2nd Follow-up)	Technology	Partial 	2	1	0	3	Partial 	The Technology Strategy has not been updated and reissued. The last Strategy covered the period up to 2021. Work is now in progress to update the IT Strategy.
Housing Void Management	Housing	Partial 	3	6	2	11	Partial 	Work is still required to produce a revised Void Management Policy and the underlying performance management and procedures to support it.

Report of:	Chief Internal Auditor & Risk Manager
Contact Officer:	Stephen Baddeley
Contact Number:	01543 464 415
Report Track:	Audit & Governance Committee: 23/03/23

Audit & Governance Committee
23 March 2023
Internal Audit Plan for 2023-24

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee the Internal Audit Plan for 2023-24.

2 Recommendation(s)

- 2.1 That the Committee approves the Audit Plan for 2023-24.

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 Internal Audit has a duty to provide the Council with an annual opinion on the effectiveness of its internal control environment and governance arrangements. The work of Internal Audit is also used as one of the sources of assurance for the Annual Governance Statement.
- 3.2 Internal Audit is required to produce a plan of work to ensure that it can give an appropriate opinion on the Council's key risk areas and systems and provide sufficient coverage to inform the Annual Governance Statement.

Reasons for Recommendations

- 3.3 The planned work is deemed to be sufficient to ensure that Internal Audit can deliver an appropriate opinion on the control environment and governance arrangements at the Council.

4 Relationship to Corporate Priorities

- 4.1 This report supports all of the Council's Corporate Priorities by helping to ensure that there are effective governance arrangements in place.

5 Report Detail

- 5.1 Internal Audit is an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls. The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.
- 5.2 To provide this assurance Internal Audit conducts an annual risk assessment and determines an audit plan for the year. Meetings are held with Heads of Service and the Council's s151 Officer as part of the risk assessment process to obtain views and comments in relation to the composition of the Internal Audit Plan. Comments are also invited from the External Auditor.

Resources

- 5.3 The resource available for the delivery of the Audit Plan across both authorities in 2023-24 is 630 days; the full details are shown in **APPENDIX 1**. The In-house team is currently carrying a vacancy for a Senior Auditor post, which is being covered by External Support from a contractor.
- 5.4 The Internal Audit Section currently conducts work for Cannock Chase District Council's Leisure Contractor, IHL, to provide them with an Internal Audit function for in return for an agreed fee. It has been agreed that the Shared Service will provide 40 days of internal audit work and 5 management days. The fee is currently being split equally between Cannock Chase District Council and Stafford Borough Council in return for an equal reduction in audit days (20 days from each). The fee received for work in 2022-23 has been used to purchase an electronic working paper system to improve efficiency in the team which will go-live for the 2023-24 Audit Plan work.
- 5.5 The resources can be broken down into:

Allocation of Resources to Audit Plan Requirements

Audits covering both Councils	425
CCDC only Audits	80
SBC only Audits	40
IT Audit Plan	60
IHL Audit Plan	45
Total Days	650

- 5.6 The resources available for the year are considered sufficient to cover enough work to adequately inform the Annual Audit Opinion for 2023-24.

Annual Audit Plan

- 5.7 Normally, a full review of the "Audit Universe" would take place and be presented to Committee setting out all the possible areas for review and the risk scores determined for 2023-24. However, a full review of the Audit Universe has not been

undertaken this year due to the major Shared Service Project that is being embarked upon. Instead, the main risks being faced by the Council have been identified and this has been used to inform the audit plan. This has led to the focus. work for the year being based around:

- (i) the creation of a shared workforce for most Council services and a new management structure to deliver this;
- (ii) the strategic risk areas;
- (iii) major projects; and
- (iv) key financial systems.

5.8 The plan has been prepared and is attached as **APPENDIX 2**. As most services are being delivered as Shared Services from 1st April 2023, we have designed the Audit Plan to show if the audit will cover both Councils provision or just one. Whilst the intention is to deliver an equal amount of work for each Council there are some areas such as major regeneration projects where the audit work will be focused on just one Council. There will be a difference in the days with CCDC only work being slightly higher due Cannock Chase retaining its Housing Stock and that work is funded from the Housing Revenue Account.

5.9 The Plan is being reported against the new Senior Management structure which takes effect from the 1st April 2023.

5.10 An IT Audit Plan has not yet been produced. It is a number of years since we conducted a full Audit Needs Assessment to inform the IT Audit Plan and we will commission this piece of work early in 2023-24 to inform the IT Audit Plan and we will present the Plan to a meeting of the Committee later in the year.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equality & Diversity

None

6.6 Climate Change

None

7 Appendices to the Report

Appendix 1: Available Audit Resources 2023-24

Appendix 2: Internal Audit Plan 2023-24

Available Audit Resources 2023-24

	General Audit Total	IT Audit Support	Total Days
Staffing of the Team (Excludes Chief Internal Auditor)	3		
In House Total Days	783		783
External Support	150	60	210
Days Available	933	60	993
Less Non-Operational (leave, training etc)	207		207
Chargeable Days	726	60	786
Chargeable Work			
Fraud	8		8
Advice, Consultancy	23		23
Contingency Budget	90		90
Follow-ups	15		15
Audits	590	60	650
Chargeable Days	726	60	786

Internal Audit Plan for 2023-24

Audit Area	Description	Days	Head of Service	CCDC	SBC
Housing Benefits	A review of the processes and procedures for the operation of the Housing Benefits Function.	25	DCE - Resources	Y	Y
Council Tax	A review of the processes and procedures for the operation of the of the Council Tax function.	20	DCE - Resources	Y	Y
National Non-Domestic Rates	A review of the processes and procedures for the operation of the National Non-Domestic Rates function.	20	DCE - Resources	Y	Y
General Ledger	A review of the processes and procedures for the operation of the General Ledger.	20	DCE - Resources	Y	Y
Bank Reconciliation	A review of the processes and procedures for the reconciliation of income and expenditure to Council Bank Accounts.	20	DCE - Resources	Y	Y
Treasury Management	A review of the processes and procedures for the operation of the Council's Treasury Management functions.	20	DCE - Resources	Y	Y
Council Tax Reduction Scheme	A review of the process for the development of the scheme and its amendments/approval. Awards are reviewed as part of the Housing Benefit Audit.	15	DCE - Resources	Y	Y
Economic Regeneration Projects	A review of major economic regeneration projects including Future High Streets, Garden Community, Station Gateway.	25	Economic Development & Planning		Y
Levelling-Up Project / Town Centre Redevelopment	A review of the Levelling-up Fund projects covering Town Centre redevelopment and Civic Hub Project.	20	Economic Development & Planning	Y	

Item No. 5.7

Audit Area	Description	Days	Head of Service	CCDC	SBC
S106 Agreements and Community Infrastructure Levy	A review of the processes and procedures for the operation of the Council's s106 and Community Infrastructure Levy arrangements.	10	Economic Development & Planning	Y	
Land Charges Transfer to Land Registry Project	To review the project management arrangements and work being carried out to implement the transfer of searches to the Land Registry.	10	Regulatory	Y	Y
Shared Prosperity Fund	A review of the setting up of the Shared Prosperity Funds at each Council and processes for the award of grants for projects.	20	Economic Development & Planning	Y	Y
New Social Housing Builds	A review of the new social housing build projects currently in operation.	10	Housing HRA & Corporate Assets	Y	
Stores	A review of the CCDC Stores function at Hawks Green Depot.	10	Housing HRA & Corporate Assets	Y	
Sheltered Housing Schemes	A review of the processes and procedures for the operation of the Council's Sheltered Housing Schemes.	10	Housing HRA & Corporate Assets	Y	
Leaseholder Management and Sale of Council Houses	A review of the processes and procedures for the operation of the Council's Leasehold flats and Right-to-Buy scheme.	10	Housing HRA & Corporate Assets	Y	
Landscape / Leisure Projects	A review of the Council's projects for landscaping and leisure including parks and play-areas.	25	Operations	Y	Y
Car Parking	A review of the processes and procedures for the operation of the Council's Car Parking functions.	20	Operations	Y	Y
Garden Waste Project	A review of the implementation of a charging system for the collection of Garden Waste at CCDC.	10	Operations	Y	

Item No. 5.8

Audit Area	Description	Days	Head of Service	CCDC	SBC
SBC Income Collection / Recording System	A review of the new system introduced for the recording of cash income at SBC sites (Markets, Glover Street etc).	5	Operations		Y
Bereavement Services	A review of the processes and procedures for the operation of the Council's Bereavement Services arrangements covering cemeteries and the crematoria.	20	Operations	Y	Y
Closed Churchyards	A review of the processes and procedures for the operation of the Council's management of Closed Churchyards.	20	Operations	Y	Y
Pest & Dog Control	A review of the processes and procedures for the operation of the Council's Pest and Dog Control functions.	10	Operations	Y	Y
Environmental Protection & Pollution Control	A review of the processes and procedures for the operation of the Council's responsibilities for Environmental Protection and Pollution Control.	20	Regulatory Services	Y	Y
Climate Change	A review of the processes and procedures for the Council's Climate Change responsibilities and action plans.	20	Regulatory Services	Y	Y
Shared Service Organisational Implementation and Transformation	A review of the overarching Shared Services project including review the specific overarching processes and arrangements established at a corporate level.	30	Transformation	Y	Y
Service Transformation Projects	Work to review the transformation projects being implemented at a Service/departmental level.	10	Transformation	Y	Y
Payroll	A review of the processes and procedures for the operation of the Council's Payroll functions.	20	Transformation	Y	Y

Item No. 5.9

Audit Area	Description	Days	Head of Service	CCDC	SBC
Risk Management	A review of the processes and procedures for the operation of the Council's Risk Management arrangements.	15	Transformation	Y	Y
Replacement Customer Relationship Management System Project	A review of the project to introduce a replacement Customer Relationship Management System	10	Transformation	Y	Y
Leisure Contract Management	A review of the contract management arrangements for the Council's Leisure Contract.	10	Wellbeing		Y
Disabled Facilities Grants	A review of the Disabled Facilities Grants process including the in-sourcing of the processing at SBC and sign-off of the Assurance Statements for both Councils required by Staffordshire County Council.	15	Wellbeing	Y	Y
Homelessness & Housing Advice	A review of the processes and procedures for the operation of the Council's Homelessness and Housing Advice functions.	20	Wellbeing	Y	Y
		545			

Summary of Days by Head of Service

Head of Service	Days
DCE - Resources	140
Economic Development & Planning	75
Housing HRA & Corporate Assets	40
Operations	110
Regulatory Services	50
Transformation	85
Wellbeing	45
Total	545

Report of:	S151 Officer & Deputy Chief Executive
Contact Officer:	Chris Forrester
Telephone No:	01543 464 334
Report Track:	Audit & Governance Cttee: 23/03/23 Council: 19/04/23

Audit & Governance Committee
23 March 2023
Annual Treasury Management Report 2021/22

1 Purpose of Report

- 1.1 To update members on treasury management activity and performance during the 2021/22 financial year.

2 Recommendation(s)

- 2.1 To note the annual treasury management report for 2021/22.
- 2.2 To approve the actual 2021/22 prudential and treasury indicators set out in Appendix 1.

3 Key Issues and Reasons for Recommendations

- 3.1 Treasury management activity and performance during the 2021/22 financial year.

4 Relationship to Corporate Priorities

- 4.1 Treasury management and investment activity link in with all of the Council's priorities and spending plans.

5 Report Detail

Background

- 5.1 This 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 2021/22. 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).

- 5.2 During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year
 - a mid-year (minimum) treasury update report
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
- 5.3 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.
- 5.4 The submission of the above reports to the Audit and Governance Committee, to give prior scrutiny before they were reported to the full Council, ensures that this Council complies with the codes requirement. Training has been undertaken previously by members of the Audit and Governance Committee and further training will be arranged as required.

The Council's Capital Expenditure and Financing

- 5.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the appendix.

The Council's Overall Borrowing Need

- 5.7 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 5.8 **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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) 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 2021/22. The table in the Appendix highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.
- 5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by section 3 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 in the

Appendix demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

- 5.10 **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.
- 5.11 **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.

Treasury Position as at 31 March 2022

- 5.12 At the beginning and the end of 2021/22 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

	31 March 2021 Principal £'000	Rate/ Return	Average Life (yrs.)	31 March 2022 Principal £'000	Rate/ Return	Average Life (yrs.)
Total debt (PWLB)	81,605	3.98	34	81,605	3.98	34
CFR	91,605			91,076		
Over / (under) borrowing	-10,000			-9,248		
Total investments	39,500	0.17	0.11	59,500	0.13	0.12
Short term borrowing	0			0		
Net investments	39,500			59,500		
Net debt	42,105			22,105		

- 5.12.1 The table below sets out the maturity profile of the external debt held by the Council.

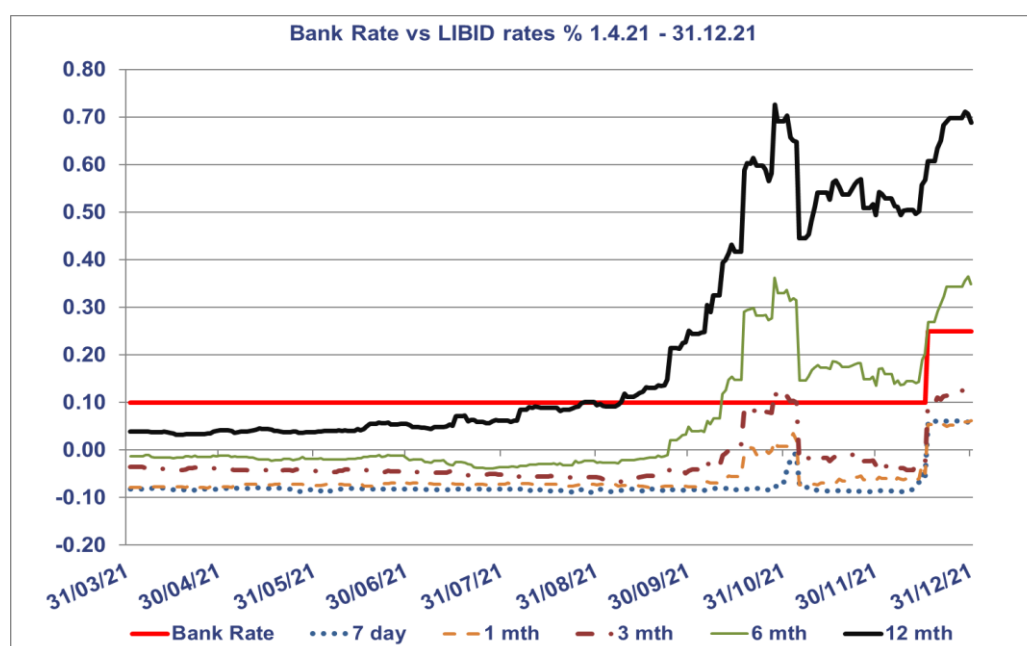
Debt Maturity Profile	31 March 2021 Actual	2021/22 Original limits	31 March 2022 Actual
	£m	£m	£m
Under 12 months	0	0	0.000
12 months and within 24 months	0	0	0.000
24 months and within 5 years	1.4	4.4	4.400
5 years and within 10 years	3	3	3.000
10 years and within 20 years	12.6	9.6	9.600
20 years and within 30 years	0	0	0.000
30 years and within 40 years	5.36	64.605	64.605
40 years and within 50 years	59.245	0	0.000
Total Debt	81.605	81.605	81.605

5.12.2 The following table sets out the Council's investments held at 31 March 2022:

Counterparty	Start Date	End Date	Value (£)	Rate %
Santander UK	180 Days' Notice	-	3,500,000	0.58
Aberdeen GBP Liquidity Fund	Money Market Fund	-	6,000,000	0.39
Federated Prime Fund Class	Money Market Fund	-	6,000,000	0.39
Deutsche Bank	Money Market Fund	-	6,000,000	0.36
Invesco	Money Market Fund	-	6,000,000	0.34
Morgan Stanley	Money Market Fund	-	5,000,000	0.33
Handelsbanken	Call Account	-	6,000,000	0.02
Nationwide Building Society	17/01/2022	14/04/2022	2,500,000	0.13
Helaba Bank	22/11/2021	19/05/2022	2,000,000	0.35
Helaba Bank	21/03/2022	20/06/2022	4,000,000	0.91
Nationwide Building Society	23/02/2022	20/06/2022	2,500,000	0.59
National Bank of Kuwait (International)	19/10/2021	19/07/2022	4,000,000	0.40
Al Rayan Bank	15/02/2022	15/08/2022	2,000,000	1.10
Al Rayan Bank	21/03/2022	19/09/2022	4,000,000	1.41
			59,500,000	

5.13 All investments in the portfolio have a maturity of under 1 year.

Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

- 5.14 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February 2022).
- 5.15 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.16 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

- 5.17 During 2021-22, 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 as investment returns were low and minimising counterparty risk on placing investments also needed to be considered
- 5.18 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.19 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

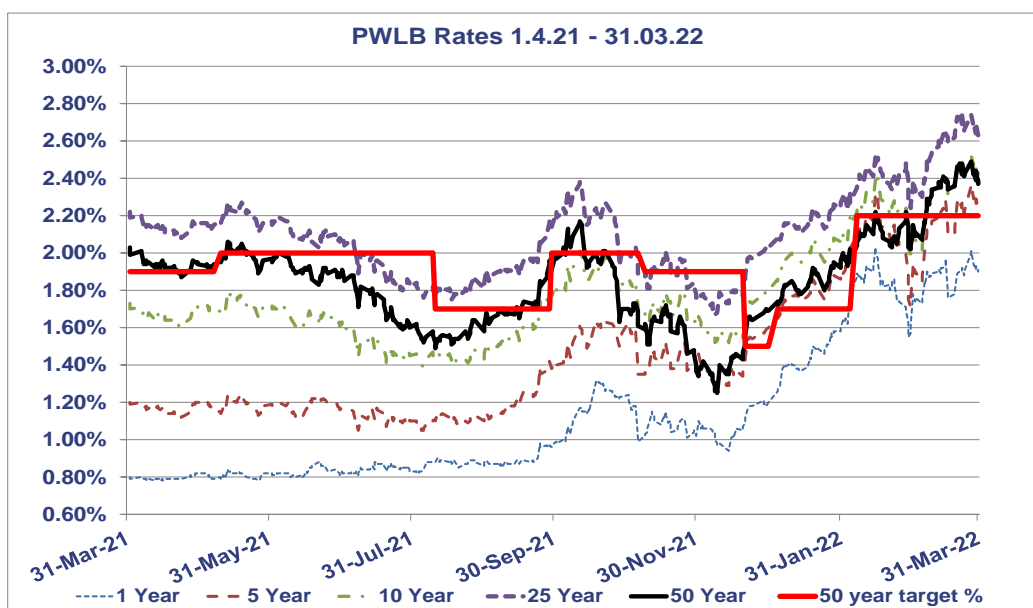
5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.21 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

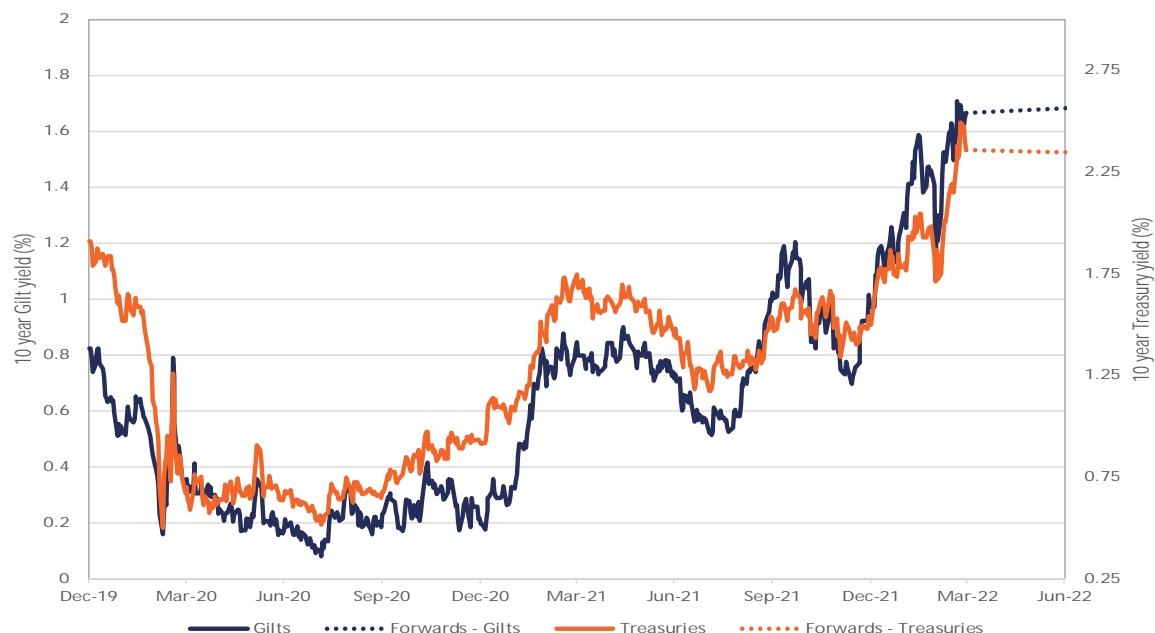
Link Group Interest Rate 8.3.21												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

PWLB RATES 2021/22



5.22 PWLB rates are based on gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

Graph of UK gilt yields v. US treasury yields



5.23 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

5.24 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

5.25 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Borrowing Outturn

5.26 **Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Investment Outturn

5.27 **Investment Policy** - the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy. 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.).

5.28 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.29 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2021 £'000	31 March 2022 £'000
Earmarked Fund balances / reserves		
General Fund	24,098	18,124
General Fund working balance	1,144	1,424
HRA	11,029	12,513
HRA working balance	1,713	1,832
Sub Total	37,984	33,893
Capital receipts		
GF	6,873	6,397
HRA	3,295	3,787
Sub Total	10,168	10,184
Provisions	2,220	2,679
Major Repairs Reserve	6,459	6,870
Capital Grants Unapplied - General Fund	2,571	4,760
Other - grants receipts in advance	1,589	1,905
Total core funds	60,991	60,291

5.31 Investments held by the Council

- The Council maintained an average balance of £53.53m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.13%.
- Total investment income was £ 71,116.78 compared to a budget of £18,000.

5.32 The Council has an operational limit of £6m with its bank provider, Barclays Bank in order to mitigate the risk of bail-in whilst maintaining adequate levels of liquidity

to ensure that payments obligations are made when they fall due. During financial year 21/22, the Council has complied with this performance indicator.

6 Implications

6.1 Financial

The financial implications have been referred to throughout the report.

6.2 Legal

The legal implications have been referred to throughout the report.

6.3 Human Resources

There are no human resource implications arising from this report.

6.4 Risk Management

Treasury management is a high-risk area due to the large amounts of money dealt with on a daily basis. However, the Council has a Treasury Policy and Strategy in place which is approved each year for the following 12 months. The Council also has advice on investment and lending from the leading company in the field and has instituted a strict control and delegation of duties regime which reduces risk to a minimum.

6.5 Equality & Diversity

There are no identified implications arising from this report.

6.6 Climate Change

There are no identified implications arising from this report.

7 Appendices to the Report

Appendix 1: Prudential and Treasury Indicators.

Appendix 2: Investment Portfolio

Prudential and Treasury Indicators

	Actual £'000 2020/21	Estimate £'000 2021/22	Actual £'000 2021/22
1. PRUDENTIAL INDICATORS			
Capital Expenditure (HRA)	3,010	6,561	5,262
Capital Expenditure (GF)	2,803	3,960	3,131
Notional Capital expenditure – Finance Leases			
Ratio of financing costs to net revenue stream (HRA)	16.77%	16.72%	16.69%
Ratio of financing costs to net revenue stream (GF)	3.2%	3.1%	3.8%
Gross borrowing requirement (GF) - Finance Leases	451	228	228
Gross debt	82,056	81,828	81,828
Capital Financing Requirement as at 31 March (HRA)	82,486	82,477	82,474
Capital Financing Requirement as at 31 March (GF)	9,119	8,650	8,602
Annual change in Cap. Financing Requirement (HRA)	-10	-9	-12
Annual change in Cap. Financing Requirement (GF)	-475	-469	-517
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	104,091	103,393	103,334
Operational Boundary for external debt	92,591	91,893	91,834
Actual external debt	82,056	84,850	81,828

Maturity structure of fixed rate borrowing during 2021/22	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Investment Portfolio

The following table sets out an analysis of investments held at 31 March 2022 (together with a comparator at 31 March 2021).

INVESTMENT PORTFOLIO	Actual 31.3.21	Actual 31.3.21 %	Actual 31.3.22	Actual 31.3.22 %
Money Market Funds	£24m	61%	£29m	49%
Banks	£15.5m	39%	£30.5m	51%
TOTAL TREASURY INVESTMENTS	£39.5m	100%	£59.5m	100%