Cannock Chase COUNCIL

Please ask for: Matt Berry

Extension Number: 4589

Email: mattberry@cannockchasedc.gov.uk

12 March 2024

Dear Councillor,

Audit & Governance Committee

5:00pm, Thursday 21 March 2024

Esperance Room, Civic Centre, Cannock

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

Please note the earlier start time of 5:00pm

Yours sincerely,

Tim Clegg

T. Clegg
Chief Executive

To: Councillors

Dunnett, M.J. (Chair)
Jones, P.G.C. (Vice-Chair)

Bishop, L.	Johnson, J.P.
Hill, J.	Stanton, 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 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 meetings held on 20 December 2023 and 7 February 2024, and the joint meeting held with the Cabinet on 7 February 2024 (enclosed).

4. **Internal Audit Update - February 2024**

   Report of the Chief Internal Auditor & Risk Manager (Item 4.1 - 4.12).

5. **Internal Audit Plan 2024-25**

   Report of the Chief Internal Auditor & Risk Manager (Item 5.1 - 5.7).

6. **Annual Treasury Management Report 2022-23**

   Report of the Deputy Chief Executive-Resources & S151 Officer (Item 6.1 - 6.13).

7. **Treasury Management Mid-Year Report 2023-24**

   Report of the Deputy Chief Executive-Resources & S151 Officer (Item 7.1 - 7.13).

Cannock Chase Council

Minutes of the Meeting of the

Audit and Governance Committee

Held on Wednesday 20 December 2023 at 6:00pm

In the Esperance Room, Civic Centre, Cannock

Part 1

Present:
Councillors

Dunnett, M.J. (Chair)
Jones, P.G.C. (Vice-Chair)

Bishop, L.	Johnson, J.P.
Hill, J.	Stanton, P.

8. Apologies

Apologies for absence were submitted for Councillor M.W.A. Hoare.

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

Resolved:

That the Minutes of the meeting held on 27 June 2023 be approved.

11. Internal Audit Update - October 2023

Consideration was given to the Report of the Chief Internal Auditor & Risk Manager (Item 4.1 - 4.10).

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

- Appendix 1 (progress monitoring): 10 audits were in draft and a further 10 in progress. 67% of the plan had been delivered or was in progress as at the end of October 2023. It was hoped to still complete a significant amount of the remaining audits, but the work of the team had been affected by a staff member leaving in October and being replaced on a temporary basis with agency resource. If it was considered necessary to amend the plan, then a report would be brought to the Committee for consideration.

  In response to a query from a Member as to whether the vacant post had been advertised, the Chief Internal Auditor & Risk Manager advised it had not yet because the aim was to recruit someone with experience who could come in and undertake the required work straight away rather needing to be trained up.

- Appendix 2 (audits completed):
    - **Agency staff & consultants** - this audit had been carried over from 2022/23 and given a 'limited' assurance for the reasons as set out in the appendix.

      In response to a query from a Member as to how long such staff had been used for, the Chief Internal Auditor & Risk Manager advised it was a long time. The Head of Transformation & Assurance further advised that the use of such staff had been determined by individual services, but discussions were taking place about centralising this and having an overarching policy in place. Most agency staff came from recruitment agencies, whereas for those individuals badged as 'consultants' there could be an issue as to whether they were deemed to be consultants or 'employees'.

      In response to a concern raised by another Member regarding a gap in health & safety training/knowledge for such staff, the Chief Internal Auditor & Risk Manager advised that training on the use of equipment was for the relevant service manager to arrange, but for the corporate level health & safety induction referred to in the appendix, the new staff member may not be in post long enough to be able to attend and the manager may not pick up that it needed to be done.
    - **Land Charges Transfer to Land Registry project** - this audit had been given a 'partial' assurance for the reasons as set out in the appendix.

      The Head of Transformation & Assurance advised that whilst most of the service would be transferring to the Land Registry, the Council would still need to hold a copy of the register and complete some searches, although unfortunately these were not income generating.
    - **Garden Waste project** - this audit had been given a 'partial' assurance for the reasons as set out in the appendix.

      The Head of Transformation & Assurance advised that the project had recently gone live and a lessons learnt exercise would be undertaken, but it had generally been a positive experience overall. Furthermore, it was acknowledged the Council did not have a corporate methodology in place for project management or the resource to do so, and therefore it was on the list to be addressed.
- Appendix 3 (audits in progress): included for information only.
- Appendix 4 (follow-up audits): the Chief Internal Auditor & Risk Manager advised that all five of the follow-up audits listed in the appendix were still a 'partial' assurance for the reasons as set out. In respect of the IT Strategy, it was clarified that the recommendation related to the Digital Strategy was in progress.

Resolved:

That the Internal Audit progress report be noted.

12. Strategic Risk Register

Consideration was given to the Report of the Head of Transformation & Assurance (Item 5.1 - 5.9).

The Head of Transformation & Assurance advised there had been little change at the half-year position, although one strategic risk 'failure to work in partnership to sustain support to vulnerable residents leading to a reduction in the quality of life of affected residents' had been removed from the register and was now being managed as an operational issue. Report appendix 2 set out details of the actions being taken to manage and mitigate the remaining strategic risks on the register.

Resolved:

That the Strategic Risk Register be noted, along with the progress made in the identification and management of the strategic risks.

13. Annual RIPA Review

Consideration was given to the Report of the Head of Law & Governance (Item 6.1 - 6.3) *(presented by the Head of Transformation & Assurance).*

The Head of Transformation & Assurance advised that the Home Office 'Code of Practice for Covert Surveillance and Property Interference' recommended that elected members of a local authority should review the authority's use of powers contained within the Regulation of Investigatory Powers Act (RIPA) 2000 at least once a year. At Cannock Chase Council, this responsibility sat within the remit of the Audit & Governance Committee. Requests received for the use of such powers were dealt with by the Head of Law & Governance or Legal Services Manager.

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.

Resolved:

That the report be noted.

The meeting closed at 6:21 p.m.

____

Chair

Cannock Chase Council

Minutes of the Meeting of the

Audit and Governance Committee

Held on Wednesday 7 February 2024 at 6:35pm

In the Council Chamber, Civic Centre, Cannock

Part 1

Present:
Councillors

Dunnett, M.J. (Chair)
Jones, P.G.C. (Vice-Chair)

Bishop, L.	Johnson, J.P.
Hoare, M.W.A.	Stanton, P.

14. Apologies

Apologies for absence had been received from Councillor J. Hill.

15. 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.

16. Revision of Internal Audit Plan 2023-24

Consideration was given to the Report of the Chief Internal Auditor & Risk Manager (Item 3.1 - 3.8).

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

- It set out the need for the Committee to approve an updated internal audit plan for 2023-24 following the resignation of the Auditor postholder in autumn 2023. The vacancy was being covered by an experienced auditor on a short-term agency basis for three months from December 2023.
- There would be a shortfall in days and so some audits needed to be deferred, the details of which were set out in report paragraph 5.4.
- An additional audit had been included in the plan, the details of which were set out in report paragraph 5.5.
- As a result of some audits being carried over from 2022-23, it was expected that the year end position should still be positive for the number of audits completed.
- It was considered that the proposed changes to the plan and completion of work from the 2022-23 plan would allow him to provide an opinion on the effectiveness of the Council's governance arrangements as required by the Public Sector Internal Audit Standards.

- The internal audit plan for 2024-25 was due to come before the Committee at its next meeting in March. Further work on developing it may be needed in light of the External Auditor's annual report for 2021-22 to 2022-23.

The Head of Transformation & Assurance advised that several of the audits deferred would not be practical to complete this year due to other matters, but there were no fundamental concerns about deferring them.

Resolved:

That the revised Audit Plan for 2023-24 be approved.

The meeting closed at 6:42 p.m.

____

Chair

Cannock Chase Council

Minutes of the Joint Meeting of the

Cabinet and Audit & Governance Committee

Held on Wednesday 7 February 2024 at 6:00 p.m.

In the Council Chamber, Civic Centre, Cannock

Part 1

Present:
Councillors:

Cabinet

Johnson, T.B.	Leader of the Council
Muckley, A.M.	Environment and Climate Change Portfolio Leader
Thornley, S.J.	Housing Portfolio Leader
Preece, J.P.T.L.	Parks, Culture, and Heritage Portfolio Leader
Prestwood, J.	Resources and Transformation Portfolio Leader

Audit & Governance Committee

Dunnett, M.J. (Chair)
Jones, P.G.C. (Vice-Chair)
Bishop, L.
Hoare, M.W.A.
Johnson, J.P.
Stanton, P.

1. Apologies

Apologies for absence had been received from Councillors J.A.A. Newbury (Deputy Leader, Cabinet), J.S. Elson (Community Wellbeing Portfolio Leader, Cabinet), P. Fisher (non-voting observer, Cabinet), and J. Hill (Audit & Governance Committee member).

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

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

3. Auditor's Annual Report for 2021-22 and 2022-23

Consideration was given the report of the External Auditors (Item 3.1 - 3.47).

The External Auditor introduced the report, drawing Members attention to the three statutory recommendations as set on reports pages 3.7-3.12. Whilst the report related to the 2021-22 and 2022-23 financial years and so some matters may have moved on, it was important for Members to be aware of and understand the issues identified.

4. Council’s Response to the Auditor’s Annual Report for 2021-22 and 2022-23

Consideration was given to the joint report of the Deputy Chief Executive-Resources & S151 Officer (Item 4.1 - 4.17).

The Chief Executive introduced the Council’s response, thanking the External Auditor and their team for the work undertaken in bringing the report forward. The report was statutorily required to be reported to full Council and approval sought of the Auditor’s recommendations. The Council’s leadership team had reflected on the issues identified and an improvement plan produced to fulfil the recommendations. Members would receive regular updates on delivery of the plan and conversations would be needed about what services could be delivered in future and the resources required to do so.

The Deputy Chief Executive-Resources then took Members through the improvement plan, drawing specific attention to the actions required to achieve the statutory recommendations. Progress in delivering the actions would primarily be overseen by the leadership and Audit & Governance Committee. The Committee would be able to escalate any concerns to the Cabinet for consideration, and Cabinet would also receive regular progress updates on delivery. Additionally, a housing board would be established to oversee delivery of the actions in respect of the Housing Revenue Account. Significant funds had been put into the budgets of both Cannock Chase and Stafford Borough Councils (CCDC and SBC) to invest in finance and transformation work to help drive forward the required work.

The Leader advised the Council recognised the importance of the External Auditor’s report and would make the requires improvements. As identified in the improvement plan, each action had designated lead officers and timescales which would help Members to monitor progress.

In response to a query from a Member of the Audit & Governance Committee as to who externally would monitor delivery of the recommendations, the External Auditor advised that new External Auditors would be coming in who would be briefed on the report so it would be down to them to monitor as needs and determine if progress had been made.

In response to a query from the same Member as to how the budget allocation for investment in finance and transformation was being funded, the Deputy Chief Executive-Resources advised that it was a resource allocation built into the base budget on an ongoing basis.

In response to a query from the same Member as to how confident officers were that the recommendations could be achieved, the Deputy Chief Executive-Resources advised they were confident that work would get underway with the resource allocated, but more may be required as the process continued.

The Leader noted that delivery of the actions would be a challenge for all, noting that suitable training for budget managers and Members would be important.

A Member of the Audit & Governance Committee noted they had been a member of it on and off over several years and that regular changes in membership made it difficult for Members to build up knowledge and experience of relevant matters.

In response to a query from another Member of the Audit & Governance Committee as to whether the situation was unique to this Council and whether any lessons learnt had been taken on board, the External Auditor advised the situation was not unique and it was highly likely that other councils would see such reports coming forward. A large part of the issue was having the required people in place to deliver services as a lot of councils had employees retiring after the Covid-19 pandemic and have found it difficult to recruit to vacant posts. The Deputy Chief Executive-Resources advised that CCDC and SBC were in a fortunate position in that they had not engaged in complex matters such as commercial investments or private finance initiatives (PFIs) so the issues identified in the report should be more fixable. In respect of staffing resource there was a need to look at sourcing local talent and supporting and developing them.

A Member of the Audit & Governance Committee noted that as a new councillor with no previous experience, it could feel overwhelming when trying to understand the reports and issues presented, so any additional training would be of help.

The Chief Executive advised that for many councils, particularly those at district level, finance had become tighter and less resource available to deliver services. As such, there was a need for the sector collectively to find a way to attract younger people to come and work in it. In respect of the audit report, many of the issues identified had previously been raised by the Internal Audit team so thanks were given to them for their hard work. It was acknowledged the issues had not been responded to quickly enough and a greater focus on this would be given by the leadership team.

The Members of the Cabinet and the Audit & Governance Committee then voted separately on the recommendations as set out in the report of the Deputy Chief Executive-Resources & S151 Officer and it was:

Resolved:

That:

(A) The findings, recommendations and management comments set out in the Auditor’s Annual Report for 2021/22 and 2022/23 be noted.

(B) Council, at its meeting to be held on 21 February 2024, be recommended to accept the Statutory Recommendations set out in the Auditor’s Annual Report for 2021/22 and 2022/23.

(C) Council, at its meeting to be held on 21 February 2024, be recommended to approve the improvement plan attached at appendix 1 of the S151 Officer’s report to address the issues identified in the Auditor’s Annual Report.

(D) The additional resources required to address the issues identified in the Auditor’s Annual Report, as set out in paragraph 5.9 of the S151 Officer’s report, which were provided for in the 2024/25 budget, be noted.

Reason for Decisions

The Auditor’s Annual Report had identified several significant issues related to the Council’s financial, governance and asset management arrangements that needed to be addressed as a priority.

The meeting closed at 6:30 p.m.

Leader	**Audit & Governance Committee Chair**

Item No. 4.1

Internal Audit Update - February 2024

Committee: Audit and Governance

Date of Meeting: 21 March 2024

Report of: Chief Internal Auditor & Risk Manager

---

1 Purpose of Report

1.1 To present to the Audit and Committee for information a progress report on the work of Internal Audit up to 29th February 2024

2 Recommendation

2.1 That the Committee note the progress report.

Reasons for Recommendations

2.2 The Audit and Governance Committee have responsibility for monitoring the work of Internal Audit.

3 Key Issues

3.1 Attached is a progress report showing the audits which have been issued between 1 April 2023 and 29 February 2024.

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 1 April 2023 and 29th February 2024 and is a report of progress against the audit plan. **APPENDIX 1** contains progress monitoring information.

5.2 As reported in the last update to the Committee the Audit Plan has been impacted by a member of staff leaving the team. A revised audit plan was approved by the committee in February 2024. Progress is reported against both the original and revised plan for Members information. Some audits in the figures were originally on the 2022-23 Audit Plan but not completed in that year.

5.3 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.

5.4 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 2**.

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.
6	**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.
4	**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.

5.5 **APPENDIX 3** lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.

5.6 **APPENDIX 4** shows information relating to follow-ups.

6 Implications

6.1 Financial

Nil

6.2 Legal

Nil

6.3 Human Resources

Nil

6.4 Risk Management

Nil

6.5 Equalities and Diversity

Nil

6.6 Health

Nil

6.7 Climate Change

Nil

7 Appendices

Appendix 1: Progress Monitoring

Appendix 2: Audits Completed 1 April to 29 February

Appendix 3: Audits in Progress

Appendix 4: Follow-ups Completed 1 April to 29 February

8 Previous Consideration

None

9 Background Papers

None

Contact Officer: Stephen Baddeley

Telephone Number: 01543 464415

Report Track: Audit and Governance Committee 19 March 2024 (Only)

Item No. 4.4

Appendix 1

Progress Monitoring

	Number of Audits in Plan for 2023-24	Audits Completed to Draft	Audits In Progress	Percentage of Plan In Progress or Completed to Date
Original Plan	30	25	4	96.6%
Revised Plan	26	25	4	111.5%

The figures include 5 completed audits and 1 in progress audit from the 2022-23 Audit Plan

Level of Assurance	No Assurance	Limited	Partial	Substantial
Number of Audits Issued in Year to date	0	5	8	12

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.

Item No. 4.5

Appendix 2

Audits Completed 1 November 2023 to 29th February 2024

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Housing Property Services	Housing & Corporate Assets	Draft	15	Limited !	• Key issues identified related to: • An absence of a contracts register for the service. • A need to retender the Quantity Surveyor contract as this had been rolled forward a number of times outside of the contract term. • Key Performance Indicators were not in place for most contracts. • Housing Property Services did not have full copies of all contracts preventing full monitoring of compliance. • Property Condition Surveys were found to be out of date and not conducted in line with best practice timescales. • Data in NEC system was in need of review for completeness and accuracy. • All properties need to be recorded in the NEC system. • The functionality of the NEC system needed to be explored to assist with job scheduling/recording and centralised property works information. • Actions in the Fire Risk Assessments should be updated on the system and work carried out should be subject to spot-checking for compliance.

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Pest & Dog Control	Operations	Draft	5	Limited !	Issues identified relate to: • Lack of a fee policy/income model and refunds process. • Out of date SLAs between CCDC and SBC. • Lack of Key Performance Indictors for the service.
Climate Change	Regulatory Services	Draft	6	Limited !	The key issues for this audit are: • There is no detailed plan to show how the actions will be delivered within existing budgets and resources. • Not all actions were clearly defined and were not SMART Actions (Specific, Measurable, Achievable, Realistic and Time Bound) and some lacked owners. • The working group didn’t regularly monitor progress against the action plan and updates to Cabinet were not programmed in. • There is no link to climate change action in the Council’s Procurement Processes.
Payroll	Transformation & Assurance	Draft	9	Limited !	The Key issues for this audit are: • It was found that some Payroll users had been given access to HR functions which were not required for their roles. • There was no record/assessment of roles and their access needs. • There were inconsistent processes and documentation across the two Councils which hampered resilience in the team.

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Environmental Protection & Pollution Control	Regulatory Services	Final	1	Partial ▲	The main issue identified related to a lack of monitoring of income and timely issue of invoices.
Risk Management	Transformation & Assurance	Draft	5	Partial ▲	The key issues relating to this audit are: • The review and update of the Risk Management Framework needed to be completed as the 2016 Framework was no longer effective. • Formal Training on risk management had not been provided to managers for a significant time. • There was a need to develop risk registers below the Strategic Risk Register to support Operational Management.
Replacement Customer Relationship Management System Project	Transformation & Assurance	Final	2	Partial ▲	The key issues relating to this audit are: • There was a need for formal minutes of Board Meetings • A risk register is needed in the corporate format.
IT Resilience (IT Audit)	Transformation & Assurance	Final	4	Partial ▲	The key issues relating to the audit are: • There is a need to document a full Business Impact Assessment on all IT systems. • Recovery Plans should be tested including data restoration. • Actions taken on receipt of notifications for Back-up failures are not recorded.

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Remote Working (IT Audit)	Transformation & Assurance	Final	6	Partial ▲	The key areas for this audit are: • There was a need to agree and document service level agreements for helpdesk calls. • Calls should be monitored for trends relating to remote working issues. • Lost/Stolen Asset reporting needs to comply with Financial Regulations • Leavers forms need to be updated to capture all equipment used for home working by the employee.
Office 365 (IT Audit)	Transformation & Assurance	Draft	4	Partial ▲	The key areas for this audit are: • There is a need to review and update a number of policies to reflect the use of Office365. • Policy review dates should be recorded and policies have version control information added.
Housing Benefits	DCE (Resources)	Final	0	Substantial ✓	
Council Tax	DCE (Resources)	Final	0	Substantial ✓	
National Non-Domestic Rates	DCE (Resources)	Final	0	Substantial ✓	

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
UK Shared Prosperity Fund	Economic Development & Planning	Final	0	Substantial ✓	
Car Parking	Operations	Final	0	Substantial ✓	

Item No. 4.10

Appendix 3

Audits in Progress

Audit	Head of Service
Levelling-Up Project/Town Centre Redevelopment	Economic Development & Planning
S106 Agreements and Community Infrastructure Levy	Economic Development & Planning
Leaseholder Management and	Housing & Corporate Assets
Capital Programme	DCE (Resources)

Item No. 4.11

Appendix 4

Follow-ups Completed 1 April to 31 October

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments/Key Issues
Planning & Building Control IT Project	Economic Development & Planning	Partial ▲	0	2	0	2	Partial ▲	• A Lessons Learnt Review has not yet been carried out to inform future projects.
Housing Consumer Standards Compliance (2nd Follow-up)	Housing & Corporate Assets	Partial ▲	2	2	0	4	Partial ▲	• The SLA with Community Safety still requires agreement. • The Resident Involvement Strategy has still not been refreshed as the Tenant Insight Officer role has not been filled.
Cyber & Network Security (2nd Follow Up)	Transformation & Assurance	Partial ▲	0	1	0	1	Partial ▲	• The Cyber Security Group has still not met to determine what actions to take against users who have not completed the Cyber Security Training
Document Retention & IT Records	Transformation & Assurance	Partial ▲	0	3	1	4	Partial ▲	• No action is being proposed in relation to the implementation of a protective marking solution for Council Documents. • No progress has been made in arranging stakeholder meetings. • Work has started but not been completed on retention/deletion policies for emails and MS Teams.

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments/Key Issues
IT Third Party Supplier Management & External Data Sharing (2nd Follow-up)	Transformation & Assurance	Partial ▲	2	2	0	2	Substantial ✓	
Licensing	Regulatory Services	Partial ▲	2	0	0	2	Substantial ✓	

Item No. 5.1

Internal Audit Plan - 2024-25

Committee: Audit & Governance

Date of Meeting: 21 March 2024

Report of: Chief Internal Auditor & Risk Manager

1 Purpose of Report

1.1 To present to the Audit and Governance Committee the Internal Audit Plan methodology for 2024-25.

2 Recommendations

2.1 That the Committee approves the Internal Audit Plan methodology for 2024-25; noting that this includes a small amount of work undertaken on behalf of Cannock Chase DC's Leisure provider which will bring in income which will be shared across both Councils.

Reasons for Recommendations

2.1 Due to the focus of Internal Audit work potentially changing through the year and uncertainty about the level of resources available with the current recruitment exercise it has been deemed appropriate to only plan on a quarterly basis not for a full year for 2024-25. This will allow flexibility to focus audit work on the highest risk areas through the year and be responsive to changes as they materialise. It will also allow for additional consultancy work to be undertaken by the team to assist in the delivery of the VFM improvement plan.

2.2 The planned time allocated to audit work across the year is deemed to be sufficient to ensure that Chief Internal Auditor will be able to deliver an appropriate opinion on the control environment and governance arrangements at the Council.

3 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.

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.

Resources

5.3 The resource available for the delivery of the Internal Audit Plan across both authorities in 2024-25 is estimated to be 482 days for general audit work plus an additional 60 days for IT Audit work; the full details are shown in **APPENDIX 1**. The In-house team is carrying a vacancy for a Senior Auditor post, which is currently out to advertisement; it is hoped this will lead to successful appointment early in the year. The Auditor post is also vacant, and this is being covered through the use of an external 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 supply 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 and 2023-24 has been used to purchase and implement an electronic working paper system to improve efficiency in the team. This went 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	**322**
SBC only Audits	40
CCDC only Audits	80
IT Audit Plan	60
IHL Audit Plan	40
Total Days	**542**

Time allocated to CCDC only audits is proportionally larger than SBC only audits due to the Housing functions.

5.6 The resources available for the year are considered sufficient to cover enough work to adequately inform the Annual Audit Opinion for 2024-25

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 2024-25. However, a full review of the Audit Universe has not been undertaken this year due to the issuing of Statutory Recommendations for both Councils in the VFM reports for which Improvement Plans were approved by Cabinet and Full Council in March 2024.

5.8 We are not presenting a full year's audit plan for 2025 we are instead proposing to adapt a more flexible approach so that we can be more responsive to a number of factors including:

- Shared Service transformation work
- Senior Management restructure
- Work relating to the delivery of the VFM Improvement Plans
- Capacity issues in the team
- New External Auditor's and any additional requirements from them on the Internal Audit Team
- Delivery of a number of high-profile major projects

5.9 The methodology proposed is that the Chief Internal Auditor in consultation with the Deputy Chief Executive Resources & s151 Officer and the Head of Transformation & Assurance will compile an indicative work plan for each quarter alongside a higher level outline plan listing of areas for potential review later in the year which will be informed by information and requests from managers.

5.10 The quarterly plan will be derived from discussions with Leadership Team and other relevant Managers as well as awareness of work being carried out on the Corporate Improvement Plans and Major Projects. Where necessary the plan will be flexible and be revised and updated within each quarter to focus on the highest risk areas and emerging issues.

5.11 The Audit Committee will receive updates on the indicative list of audits for each quarter and progress on the delivery of audit work throughout the year.

5.12 Work this year will focus on three main areas:

(i) the completion of the Corporate Improvement Plans to deliver the recommendation contained in the VFM Reports.

(ii) major projects.

(iii) key financial systems.

5.13 Any additional time will be spent on operational areas deemed to be higher risk or where low assurances have previously been provided by Internal Audit

5.14 A table setting out the key areas for audit work which have already been identified and how they relate to each Council grouped to align with corporate objectives is set out **in APPENDIX 2.**

5.15 An IT Audit Plan has not yet been produced. Discussions will take place with the IT Audit Contractor, the Chief Technology Officer, and the Chief Internal Auditor & Risk Manager to determine an IT Audit Plan for the year which will be reported to Audit Committee separately.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

APPENDIX 1: Available Audit Resources 2024-25

APPENDIX 2: Internal Audit Plan Areas - 2024-25

8 Previous Consideration

None

9 Background Papers

File of working papers held by the Chief Internal Auditor and Risk Manager

Contact Officer: Stephen Baddeley

Telephone Number: 01543 464 415

Report Track: Audit & Governance Committee: 21/03/24

Item No. 5.5

Appendix 1

Internal Audit Plan 2024-25

Estimated Available Audit Resources 2024-25

	General Audit Total	IT Audit Support	Total Days
Staffing of the Team (Excludes Chief Internal Auditor)	**3**		
In House Total Days	**653**		**653**
External Support	150	60	**210**
Days Available	**803**	**60**	**863**
Less Non-Operational (leave, training etc)	193		**193**
Chargeable Days	**610**	**60**	**670**
Chargeable Work			
NFI	8		**8**
Advice, Consultancy	60		**60**
Contingency Budget	45		**45**
Follow-ups	15		**15**
Audits	**482**	**60**	**542**
Chargeable Days	**610**	**60**	**670**

Item No. 5.6

Appendix 2

Internal Audit Plan 2024-25

Audit Plan Outline Areas - 2024-25

The Economy

Shared Areas	CCDC	SBC
CCDC Levelling Up Scheme	Y	
SBC - Regeneration Schemes (Future High Streets/Levelling-up) • Guildhall Site • Coop Site • Station Gateway		Y
Development Management	Y	Y

Health & Wellbeing

Audit Area	CCDC	SBC
Housing VFM Actions • Compliance • Planned Works • Asset Management	Y	
Housing Areas • Stores • Responsive Repairs • Voids • Gas Contract (Q2)	Y	
Homelessness & Housing Advice (Deferred 2023-24)	Y	Y
Leisure new Performance/Contract Monitoring Arrangements		Y

Community, Environment and Climate Change

Audit Area	CCDC	SBC
Chargeable Waste System & Controls	Y	
Tree Management	Y	Y
Building Control - new arrangements	Y	Y
Land Charges Transfer and New System	Y	Y

The Council

Audit Area	CCDC	SBC
Key Systems (for Q3/4) • HB (In house) • Council Tax • NNDR • Payroll	Y	Y
Corporate VFM Actions • Finance Processes • Assurance Functions • Fraud • Asset Management	Y	Y
New Customer Relationship System (GOSS)	Y	Y
HR • Recruitment & Selection • Managing Absence	Y	Y
Data Quality Arrangements	Y	Y
Finance • General Ledger Review • New finance System Implementation Lessons Learnt • Bank Reconciliation (Deferred 2023-24) • Purchasing Cards	Y	Y

IT Plan Potential Areas for Review

- New Customer Relationship System (GOSS) IT Controls

Item No. 6.1

Annual Treasury Management Report 2022-23

Committee:	Audit and Governance Committee Council
Date of Meeting:	21 March 2024 17 April 2024
Report of:	Deputy Chief Executive-Resources & S151 Officer

---

1 Purpose of Report

1.1 To update members on treasury management activity and performance during the 2022/23 financial year.

2 Recommendations

2.1 To note the annual treasury management report for 2022/23; and

2.2 To approve the actual 2022/23 prudential and treasury indicators set out in the Appendix.

Reasons for Recommendations

2.3 The committee is required to receive reports and approve information on treasury management activity during the year

3 Key Issues

3.1 Treasury management activity and performance report during the 2022/23 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activity link in with all of the Council's priorities and their 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 2022/23. 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 2022/23, 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; and
- 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 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to the full Council. Training has been undertaken 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 for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

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

The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 1st February 2022.

The Council's CFR for the year is shown in the Appendix and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need.

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

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 (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would have allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table in **APPENDIX 1** 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" determined in compliance with 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 **APPENDIX 1** demonstrates that during 2022/23 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 31st March 2023

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

At the end of 2022/23 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

	31 March 2022 Principal £'000	Rate/ Return (%)	Average Life (yrs.)	31 March 2023 Principal £'000	Rate/ Return (%)	Average Life (yrs.)
Total debt (PWLB)	81,605	3.98	34	81,605	3.98	34
CFR	91,076			90,575		
Over / (under) borrowing	-9,471			-8,970		
Total investments	59,500	0.13	0.12	56,800	2.06	0.08
Short term borrowing	0			0		
Net investments	59,500			56,800		
Net debt	**22,105**			**24,805**		

5.12.1 The following table sets out the Council's investments held and their respective rate of returns at 31st March 2023:

Counterparty	Start Date	End Date	Value (£)	Rate %
Al Rayan Bank Plc	20/03/2023	20/09/2023	4,000,000	4.50
National Bank of Kuwait	23/03/2023	24/04/2023	2,000,000	4.15
Helaba Bank	20/03/2023	03/04/2023	4,000,000	4.00
National Bank of Kuwait	20/03/2023	20/04/2023	4,000,000	4.10
Al Rayan Bank Plc	15/02/2023	15/05/2023	2,000,000	4.05
Helaba Bank	23/03/2023	24/04/2023	1,500,000	4.22
Santander (180 days)	Call (Notice Account)		3,500,000	3.76
Svenska Handelsbanken	Call Account		6,000,000	1.85
Aberdeen GBP Liquidity Class L1	Money Market Fund		8,000,000	4.06
Deutsche Managed GBP LVNAV Platinum	Money Market Fund		9,000,000	4.16
Federated Hermes Short-Term GBP Prime Class 3	Money Market Fund		3,800,000	4.09
Morgan Stanley GBP Liquidity Institutional Plus	Money Market Fund		9,000,000	4.16
Total Investments			**56,800,000**	

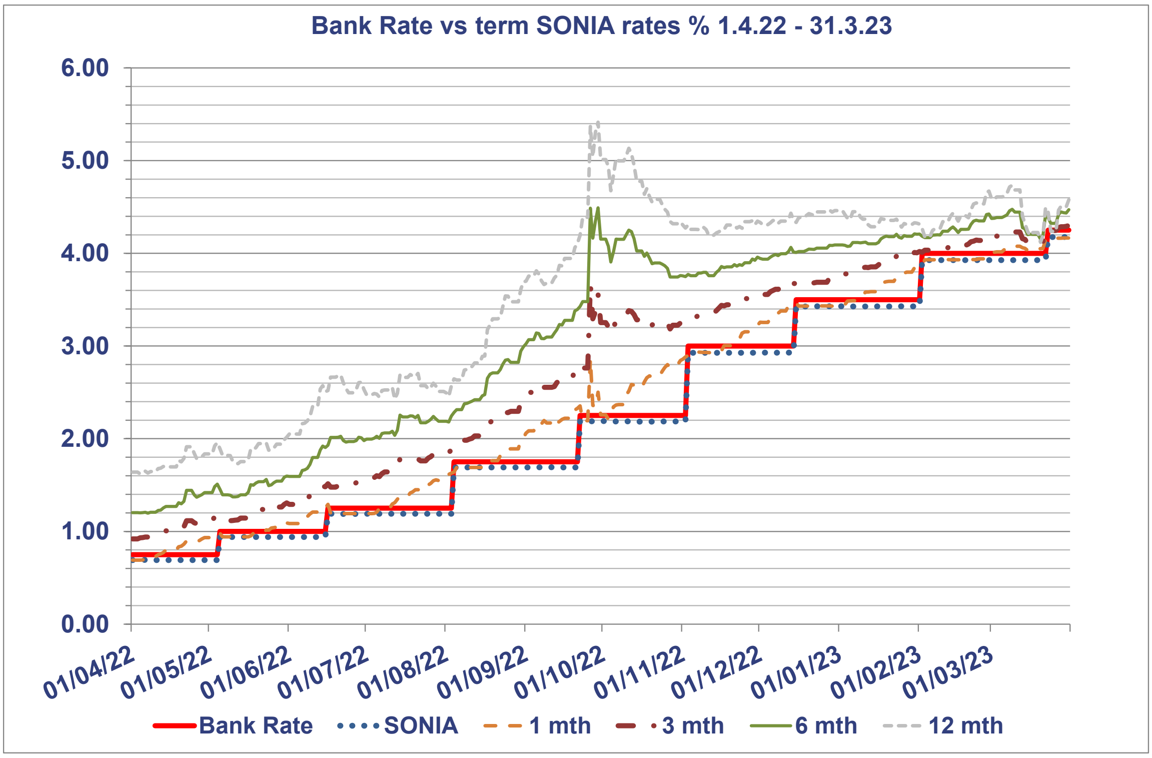
5.12.2 The table below sets out the maturity profile of the external debt held by the Council.

Debt Maturity Profile	31-Mar-22 Actual £m	2022/23 original limits £m	31-Mar-23 Actual £m
Under 12 months	0	0	0
12 months and within 24 months	0	1.40	1.40
24 months and within 5 years	4.40	3.00	3.00
5 years and within 10 years	3.00	3.00	3.00
10 years and within 20 years	9.60	9.60	9.60
20 years and within 30 years	0	0	0
30 years and within 40 years	64.605	64.605	64.605
40 years and within 50 years	0	0	0
Total Debt	**81.605**	**81.605**	**81.605**

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

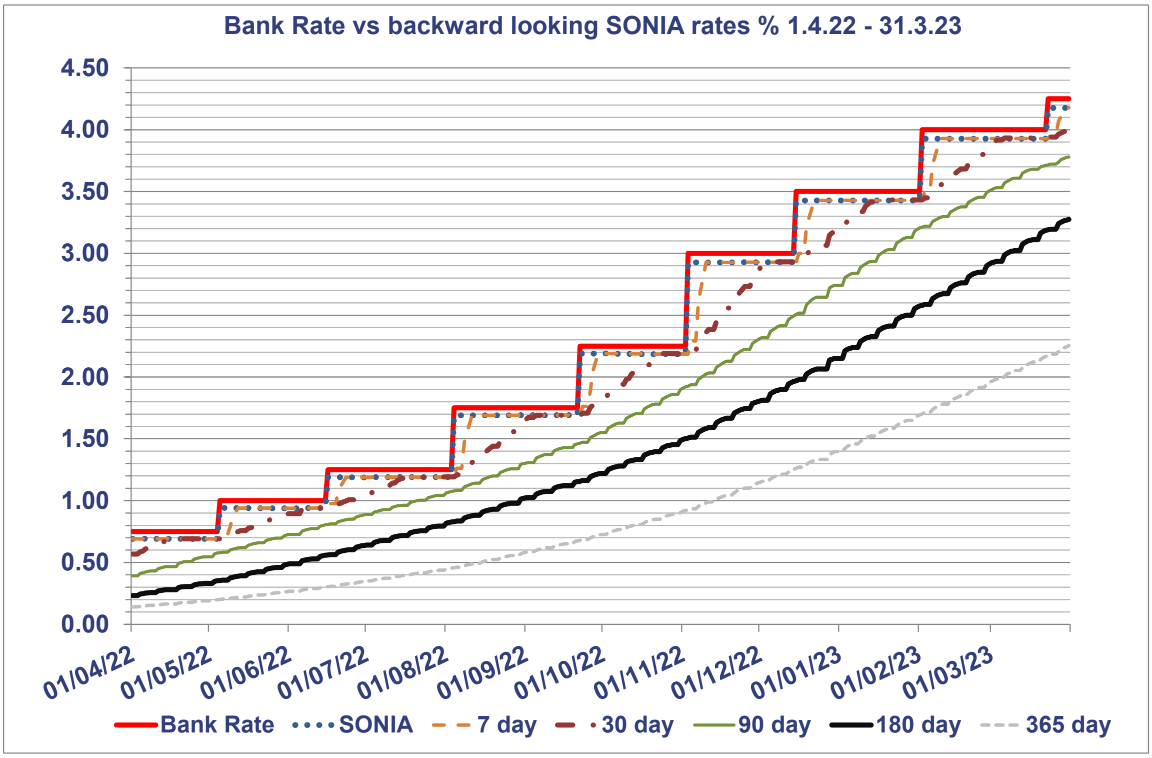
Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/3/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.25	4.18	4.17	4.30	4.49	5.41
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	2.30	2.24	2.41	2.72	3.11	3.53
Spread	3.50	3.49	3.48	3.38	3.29	3.79

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/03/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

5.14 Investment returns picked up throughout the course of 2022/23 as Central Banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy were required.

At the time of writing, the Bank of England has opted to increase Bank Rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and to the current 5.25% in October 2023.

Against this backdrop of market volatility, the sea-change in investment rates meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade. This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council's Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and "rode the yield curve" with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

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 the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

5.17 During 2022/23, 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.

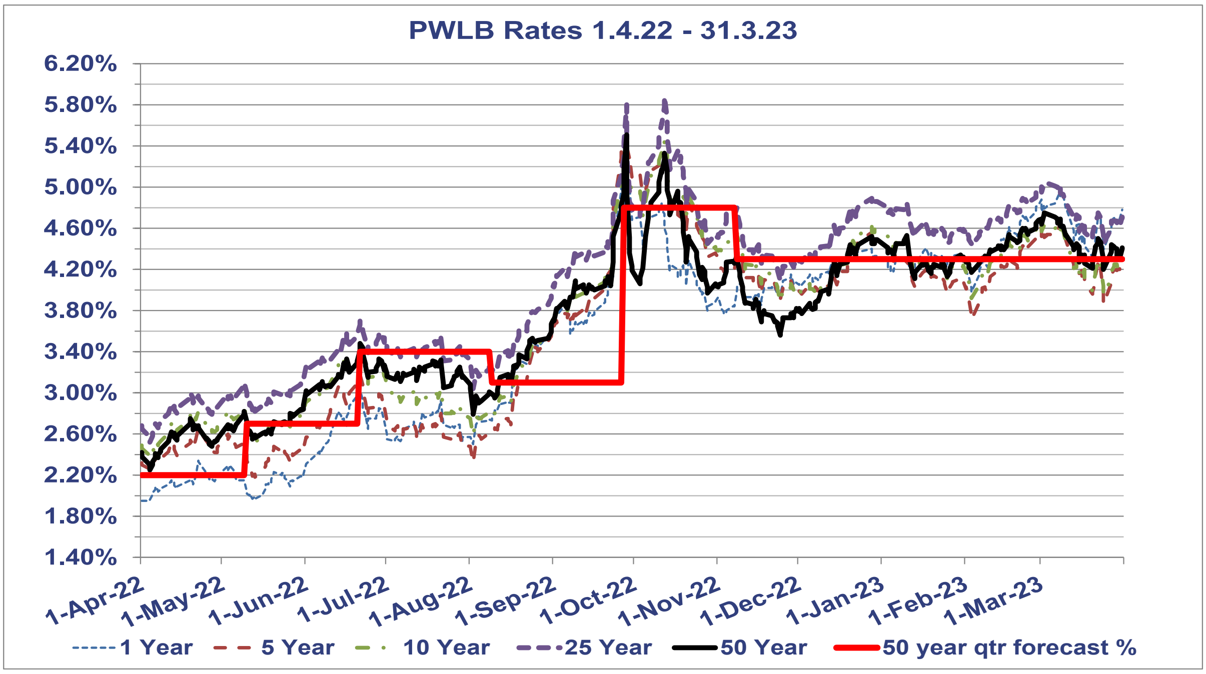
5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The S151 Officer and Deputy Chief Executive (Resources) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles 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 were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, peaking around 11% in October 2022. As described above, the Bank of England adopted a short-term monetary policy tightening at every Monetary Policy Committee meeting during 2022 and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time until September 2023, in order to control the rampant rise of inflation. At the time of writing, the current CPI measure of inflation is still above 6% in the UK but is expected to fall back towards 4% by year-end. Nonetheless, there remain significant risks to that central forecast.

Link Group Interest Rate View	7.2.22											
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

PWLB RATES 2022/23

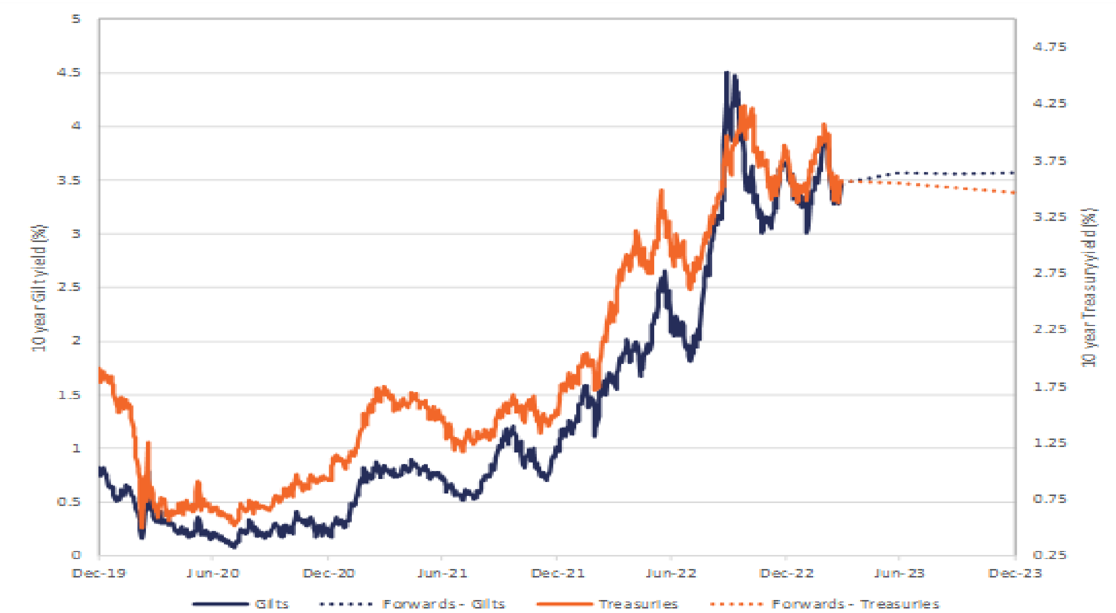


5.22 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been 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. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned 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.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee, European Central Bank and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of UK gilt yields v. US treasury yields



5.23 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

5.24 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

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)
- **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 DHLUC guidance, which has been implemented in the approved 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:

Year End Resources	**2021/22**	**2022/23**
	Actual	**Actual**
	£'000	**£'000**
Earmarked Fund balances /reserves		
General Fund (GF)	18,124	18,541
General Fund working balance	1,424	1,941
Housing Revenue Account (HRA)	12,513	13,191
HRA working balance	1,832	1,983
Sub Total	**33,893**	**35,656**
Capital receipts:		
GF	6,397	6,286
HRA	3,787	5,370
Sub Total	**10,184**	**11,656**
Provisions	2,679	2,368
Major Repairs Reserve	6,870	8,606
Capital Grants Unapplied GF	4,760	3,606
Other - Grants Receipts In Advance	1,905	2,392
Total core funds	**60,291**	**64,284**

5.30 **Investments held by the Council:**

- The Council maintained an average balance of £60.2m of internally managed funds.

- The internally managed funds earned an average annualised rate of return of 2.06%.
- Total investment income was £1,236,881.17 compared to a budget of £650,0000.

6 Implications

6.1 Financial

Included in this report.

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equalities and Diversity

None

6.6 Health

None

6.7 Climate Change

None

7 Appendices

Appendix 1: Prudential Indicators

Appendix 2: Investment Analysis

8 Previous Consideration

None

9 Background Papers

Held in Finance.

Contact Officer: Emma Fullagar

Telephone Number: 01543 464720

Report Track: Audit and Governance 21/3/24

Council 17/04/24

Item No. 6.12

Appendix 1

Annual Treasury Management Report 2022/23

1. PRUDENTIAL INDICATORS	2021/22	2022/23	2022/23
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Expenditure (HRA)	5,262	10,290	3,726
Capital Expenditure (GF)	3,131	13,390	2,696
Notional Capital expenditure – Finance Leases			
Ratio of financing costs to net revenue stream (HRA)	16.69%	16.09%	15.96%
Ratio of financing costs to net revenue stream (GF)	3.76%	2.6%	-4.90%
Gross borrowing requirement (GF) - Finance Leases	228	223	223
Gross debt	81,828	81,605	81,605
Capital Financing Requirement as at 31 March (HRA)	82,475	82,468	82,475
Capital Financing Requirement as at 31 March (GF)	8,601	8,194	8,100
Annual change in Cap. Financing Requirement (HRA)	-11	-7	0
Annual change in Cap. Financing Requirement (GF)	-518	-407	-502

2 TREASURY MANAGEMENT INDICATORS	2021/22 Actual £'000	2022/23 Estimate £'000	2022/23 Actual £'000
Authorised Limit for external debt -	103,334	103,714	102,075
Operational Boundary for external debt	91,834	92,214	90,575
Actual external debt	81,828		81,605

Maturity structure of fixed rate borrowing during 2022/23	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%

Item No. 6.13

Appendix 2

Annual Treasury Management Report 2022/23

The following table sets out an analysis of investments held 31st March 2023 (together with a comparator at 31st March 2022).

INVESTMENT PORTFOLIO	**Actual 31.3.22**	**Actual 31.3.22 %**	**Actual 31.3.23**	**Actual 31.3.23 %**
Money Market Funds	£29.0m	49%	£29.8m	52%
Banks	£30.5m	51%	£27.0m	48%
Local authorities	£0m	0%	£0m	0%
TOTAL TREASURY INVESTMENTS	**£59.5m**	**100%**	**£56.8m**	**100%**

Item No. 7.1

Treasury Management Mid-Year Report 2023/24

Committee:	Audit and Governance Committee Council
Date of Meeting:	21 March 2024 17 April 2024
Report of:	Deputy Chief Executive-Resources & S151 Officer

1 Purpose of Report

1.1 To update members on Treasury Management activity and performance during the first half of the 2023/24 financial year.

1.2 To provide an economic update and a background to the latest economic forecasts of interest rates. Both are detailed in the **APPENDIX**.

2 Recommendations

2.1 To note the report, the treasury activity and the Prudential Indicators for 2023/24.

Reasons for Recommendations

2.2 The treasury management strategy sets out the activity for the year and update reports are required to be produced during the year.

3 Key Issues

3.1 To report the Treasury Management activity and performance during the first half of the 2023/24 financial year.

4 Relationship to Corporate Priorities

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

5 Report Detail

Background

5.1 **Capital Strategy**

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following:

- 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.

This strategy is in the process of being updated and will come to a future meeting of the committee.

5.2 **Treasury Management**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low-risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.3 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure 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.

5.4 Accordingly, CIPFA defines "Treasury Management" as:

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

Introduction

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

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Cabinet.

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

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

Treasury Management Strategy Statement and Annual Investment Strategy Update

5.7 The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 1 March 2023. There has been no policy change since the TMSS came into force. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

Prudential Indicator 2023/24	**Original £'000**	**Revised £'000**
Authorised Limit	103,338	102,360
Operational Boundary	91,838	90,860
Capital Financing Requirement	90,286	90,308

The Council's Capital Position (Prudential Indicators)

5.8 This part of the report is structured to update:

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

Prudential Indicator for Capital Expenditure

5.9 This table shows the estimates for capital expenditure and the changes since the capital programme was agreed at Budget time (updated for revised portfolios).

Capital Expenditure by Portfolio	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Resources & Transformation	0	21
Environment & Climate Change	80	94
Community Wellbeing	1,451	2,643
Housing	10	10
Parks, Culture & Heritage	668	1,812
Regeneration & High Streets	15	1,605
Non – HRA	2,224	6,185
HRA	12,772	7,250
Total	**14,996**	**13,435**

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

Capital Expenditure	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Total Spend	**14,996**	**13,435**
Financed by:		
Capital Receipts	1,992	696
Capital Grants/contributions	1,475	5,166
Major Repairs	10,980	6,862
Revenue	549	711
Total Financing	**14,996**	**13,435**
Borrowing Need	**0**	**0**

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

5.11 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 Indicators - CFR and Operational Boundary

5.12 We are on target to achieve the original forecast Capital Financing Requirement.

	2023/24 Original Estimate £'000	**2023/24 Revised Estimate £'000**
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	7,833	7,833
CFR – housing	82,453	82,475
Total CFR	90,286	90,308
Net movement in CFR		**22**
Prudential Indicator – the Operational Boundary for external debt		
Operational Boundary	**91,838**	**90,860**
Borrowing	81,605	81,605
Other long-term liabilities*		
Headroom	**10,233**	**9,255**

** On balance sheet finance leases etc.*

Limits to Borrowing Activity

5.13 The first key control over the treasury activity is a Prudential Indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2023/24 Original Estimate £'000	**2023/24 Revised Estimate £'000**
Borrowing	81,605	81,605
Other long-term liabilities*		
Total debt	**81,605**	**81,605**
CFR* (year-end position)	**90,286**	**90,308**

** Includes on balance sheet finance leases etc.*

5.14 The section 151 officer reports that no challenges are envisaged for the current or future years in complying with this Prudential Indicator.

5.15 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.

Authorised limit for external debt	**2023/24 Original Estimate £'000**	**2023/24 Revised Estimate £'000**
Authorised Limit	**103,338**	**102,360**
Borrowing	81,605	81,605
Other long-term liabilities*		
Headroom	**21,733**	**20,755**

** Includes on balance sheet finance leases etc.*

Annual Investment Strategy 2023/24

5.16 In accordance with CIPFA's Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown in **APPENDIX 2** with the accompanying forecast interest rate in near time horizon, there is a relationship with inflation and interest rates. A rise in inflation will invariably lead to a rise in interests. The same wisdom holds true from the opposite situation. Holding true to this relationship, the persistent rise of inflation has correspondingly increased the Bank Rate. At the time of writing, the Bank of England has opted to increase Bank rate on 14 successive occasions, starting around mid-December 2021. At the beginning of April 2022, Bank Rate was set at 0.75% and moved up in stepped increases of either 0.25% or 0.5% thereafter, reaching 4.25% by the end of 2022/23 and to the current 5.25% in October 2023.

In light of the Bank of England's Monetary Policy Committee's surprise decision in September 2023 to maintain bank rate at the current 5.25%, the view is that interest rates have reached their peak. Based on current market conditions and intelligence, it is anticipated that inflation will gradually decline which, in turn, will lead to a fall in Bank Rate. It is projected that Bank Rate to year-end will decrease from 5.25% to 4.00%. Against this backdrop of market volatility, the sea-change in investment rates meant local authorities were faced with the challenge of proactive investment of surplus cash for the first time in over a decade.

This emphasised the need for a detailed working knowledge of cashflow projections, so that the appropriate balance between the conflicting needs for security and liquidity of funds whilst maximising the return on investments could be struck. The Council's Treasury Team were able to achieve such balance through the diversification of different financial assets and other interest-bearing instruments, and "rode the yield curve" with fixed-term deposits by adopting shorter durations on a rolling basis in order to lock-in the increase in investment rates whilst maintaining the security of investment.

5.17 The Council held £57.3m of investments as at 30 September 2023 (£56.8m at 31 March 2023).

5.18 A full list of investments held as at 30 September 2023 is in **APPENDIX 1**.

Investment Counterparty criteria

5.19 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

Borrowing

5.20 The Council's capital financing requirement (CFR) for 2023/24 is £90.296m. 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. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

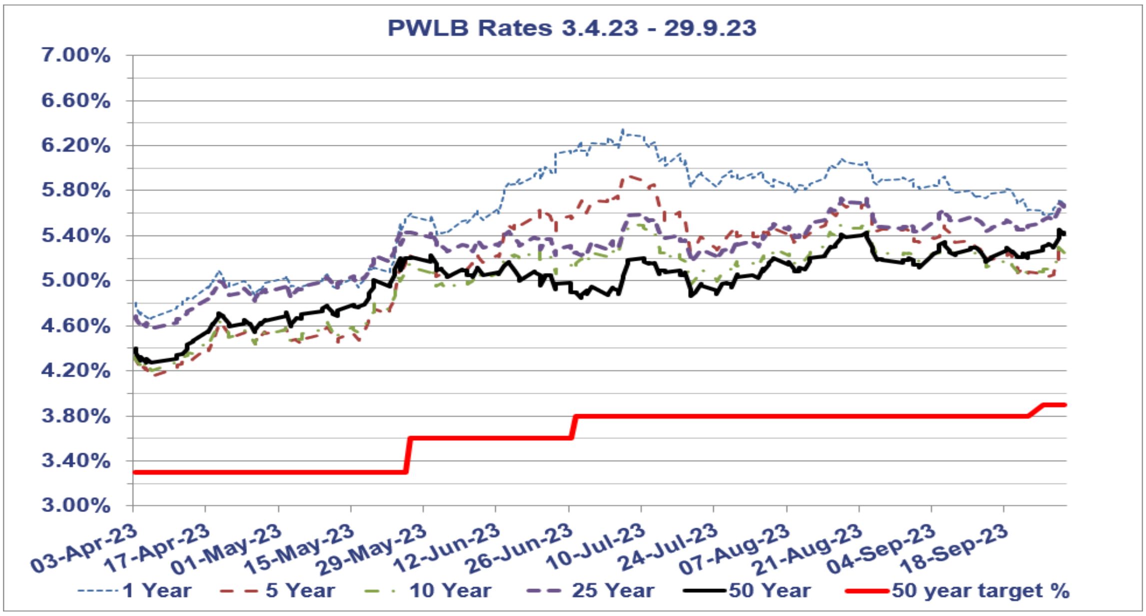
5.21 It is not currently anticipated that borrowing will be undertaken during this financial year, subject to capital slippage into 2024-25 and the trajectory of borrowing rates for the remainder of 23/24.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023

5.22 Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%. July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5 April but rose to 5.45% on 28 September.

5.23 The Council's external treasury advisors, Link Group, forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB Rates 01.04.23 - 29.09.23



High/Low/Average PWLB Rates For 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

5.24 The current PWLB rates are set as margins over gilt yields as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate (GF) is gilt plus 80 basis points (G+80bps)
- PWLB Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)
- PWLB Certainty Rate (HRA) is gilt plus 40bps (G+40bps)

The UK Infrastructure Bank will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

6 Implications

6.1 Financial

Included in this Report.

6.2 **Legal**

None

6.3 **Human Resources**

None

6.4 **Risk Management**

None

6.5 **Equalities and Diversity**

None

6.6 **Health**

None

6.7 **Climate Change**

None

7 Appendices

Appendix 1: Current Investment List as at 30 September 2023.

Appendix 2: Economic Update (provided by Link Asset Services as of 30 September 2023)

Appendix 3: Interest Rate Forecast (provided by Link Asset Services as of 30 September 2023)

8 Previous Consideration

None

9 Background Papers

Held with Finance

Contact Officer: Emma Fullagar

Telephone Number: 01543 464 720

Report Track: Audit & Governance Committee: 21/03/24

Item No. 7.9

Appendix 1

Treasury Management Mid-Year Report 2023/24

Current Investment List and their respective rate of return as of 30 September 2023

Counterparty	Start Date	Maturity	Value (£)	Rate (%)
Al Rayan Bank Plc	15-May-23	15-Nov-23	2,000,000	4.80
National Bank of Kuwait	22-Aug-23	22-Feb-24	4,000,000	5.87
National Bank of Kuwait	19-Sep-23	19-Feb-24	2,000,000	5.70
Al Rayan Bank Plc	20-Sep-23	19-Feb-24	4,000,000	5.60
Santander (180 days)	**Call180		3,500,000	4.76
***Handelsbanken	***Call		6,000,000	2.60
***Bank of Scotland	***Call		4,050,000	5.14
Aberdeen GBP Liquidity Class L1	*MMF		2,450,000	5.29
Deutsche Managed GBP LVNAV Platinum	*MMF		3,300,000	5.22
Federated Hermes Short-Term GBP Prime Class 3	*MMF		8,000,000	5.35
Invesco Liquidity GBP Institutional	*MMF		9,000,000	5.33
Morgan Stanley GBP Liquidity Institutional Plus	*MMF		9,000,000	5.33
Total Investments			**57,300,000**	

*MMF - Money Market Fund (Instant Access)

**Call 180 days' Notice Account

***Call Account (No Notice. Instant Access)

Item No. 7.10

Appendix 2

Treasury Management Mid-Year Report 2023/24

Economics update

- The first half of 2023/24 saw:

  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.

  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.

  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.

  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England’s closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England’s prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was “finely balanced”. Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures “further tightening in policy would be required”. Governor Bailey stated, “we’ll be watching closely to see if further increases are needed”. The Bank also retained the hawkish guidance that rates will stay “sufficiently restrictive for sufficiently long”.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17 August to 4.44% on 29 September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31 August to 7,608 on 29 September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

Item No. 7.13

Appendix 3

Treasury Management Mid-Year Report 2023/24
Interest Rate Forecast

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) which has been accessible to most authorities since 1 November 2012.

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

Link's 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 1 November 2012.

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

Item No. 7.14

Appendix 3

Treasury Management Mid-Year Report 2023/24
Interest Rate Forecast

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) which has been accessible to most authorities since 1 November 2012.

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

Link's 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 1 November 2012.

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