Public Document Pack

Committee:	**Accounts, Audit and Risk Committee**
Date:	**Wednesday 17 January 2024**
Time:	**6.30 pm**
Venue:	**Bodicote House, Bodicote, Banbury, Oxon OX15 4AA**

Membership

Councillor Lynn Pratt (Chairman)	**Councillor Simon Holland (Vice-Chairman)**
Councillor Besmira Brasha	Councillor Andrew Crichton
Councillor Donna Ford	Councillor Harry Knight
Councillor Simon Lytton	Councillor Ian Middleton

Harry Lawson (Independent Person, no voting rights)
Sarah Thompson (Independent Person, no voting rights)

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Minutes (Pages 5 - 10)

To confirm as a correct record the Minutes of the meeting of the Committee held on 15 November 2023.

5. Chairman's Announcements

To receive communications from the Chairman.

6. Internal Audit Progress Report 2023/24 (Pages 11 - 44)

Report of the Assistant Director of Finance

Purpose of report

The report presents the Internal Audit progress report for 2023/24. Since the last update to the September 2023 meeting of the Accounts, Audit & Risk Committee three audits have now been finalised: Climate, Revenues & Benefits IT Applications, and Business Continuity. The executive summaries from these audits are included within this report.

The implementation status of previously agreed management actions continues to be positive across the organisation, with good rates of implementation and evidence that other actions are being actively progressed.

Recommendations

The meeting is recommended:

1.1 To note the progress with the 2023/24 Internal Audit Plan and the outcome of the completed audits.

7. External Audit Update

External Auditors, Ernst & Young to provide verbal update.

8. Treasury Management Report - Q3 2023/24 (December 2023) (Pages 45 - 54)

Report of the Assistant Director of Finance

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2023-24 as required by the Treasury Management Code of Practice.

All treasury management activities undertaken to date during the financial year 2023-24 complied with the CIPFA Code of Practice and the council's approved Treasury Management Strategy, and all of the Treasury Management Prudential Indicators were met during the reporting period.

Recommendations

The meeting is recommended:

1.1 To note the contents of this Treasury Management report for Q3 2023/24.

9. Capital, Investment and Treasury Management Strategies 2024-25 (Pages 55 - 112)

Report of the Assistant Director of Finance

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2024-25.

Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2024-25 to Executive.

10. Work Programme (Pages 113 - 114)

To consider and review the Work Programme.

11. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence
Apologies for absence should be notified to democracy@cherwell-dc.gov.uk or 01295 221534 prior to the start of the meeting.

Declarations of Interest
Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates
Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Evacuation Procedure
When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings
If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

Mobile Phones
Please ensure that any device is switched to silent operation or switched off.

Webcasting and Broadcasting Notice
The meeting will be recorded by the council for live and/or subsequent broadcast on the council's website. The whole of the meeting will be recorded, except when confidential or exempt items are being considered. The webcast will be retained on the website for 6 months.

If you make a representation to the meeting, you will be deemed by the council to have consented to being recorded. By entering the Council Chamber, you are consenting to being recorded and to the possible use of those images for and sound recordings for webcasting and/or training purposes.

The council is obliged, by law, to allow members of the public to take photographs, film, audio-record, and report on proceedings. The council will only seek to prevent this should it be undertaken in a disruptive or otherwise inappropriate manner.

Queries Regarding this Agenda
Please contact Natasha Clark or David Rogers, Democratic and Elections
democracy@cherwell-dc.gov.uk, 01295 221534

Shiraz Sheikh
Monitoring Officer

Published on Tuesday 9 January 2024

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, Oxon OX15 4AA, on 15 November 2023 at 6.30 pm

Present:

Councillor Lynn Pratt (Chairman)
Councillor Besmira Brasha
Councillor Andrew Crichton
Councillor Donna Ford
Councillor Simon Lytton
Councillor Ian Middleton
Harry Lawson, Independent Person (no voting rights)
Sarah Thompson, Independent Person (no voting rights)

Substitute Members:

Councillor Barry Wood (In place of Councillor Simon Holland)

Apologies for absence:

Councillor Simon Holland
Councillor Harry Knight

Also Present:

Councillor Adam Nell, Portfolio Holder for Finance

Also Present Virtually:

Alison Kennett, External Audit
Maria Grindley, External Audit

Officers:

Joanne Kaye, Head of Finance and Deputy Section 151 Officer
Sarah Cox, Chief Internal Auditor
Declan Brolly, Corporate Fraud Officer
Natasha Clark, Governance and Elections Manager
David Rogers, Democratic and Elections Officer

Officers Attending Virtually:

Michael Furness, Assistant Director Finance & S151 Officer
Shiraz Sheikh, Assistant Director Law & Governance and Monitoring Officer
Celia Prado-Teeling, Performance & Insight Team Leader

34 **Declarations of Interest**

There were no declarations of interest.

35 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

36 **Minutes**

The Minutes of the meeting of the Committee held on 27 September 2023 were agreed as a correct record and signed by the Chairman.

37 **Chairman's Announcements**

The Chairman had two announcements:

1.) Two private sessions would take place for Committee members after the meeting, the first with the Internal Audit Team and the second with the External Auditors.

2.) The Council's Internal Audit and Counter Fraud Service was currently provided by Oxfordshire County Council. Oxfordshire County Council had chosen to end the arrangement and submitted 6 months written notice of termination of the agreement with arrangements for Internal Audit and Counter Fraud provided by the County Council coming to an end on 30 April 2024. The Chief Internal Auditor would still attend the May AARC meeting to present the Chief Internal Auditor's annual report and opinion for 2023/24.

Officers would be considering the best option for provision of the Internal Audit and Counter Fraud functions at Cherwell District Council in the future. The Committee would be further updated in due course.

38 **Performance, Finance and Risk Monitoring Report**

The Assistant Director of Customer Focus submitted a report that updated the Committee on how well the council was managing its Strategic Risks.

In introducing the report, the Performance and Insight Team Leader advised the Committee that there were no substantial changes.

Resolved

(1) That the Risk Monitoring Report for September 2023 be noted.

39 **Update on Counter Fraud Annual Plan 2023/24**

The Assistant Director of Finance and S151 Officer submitted a report that presented a summary of activity against the Annual Plan for the Counter-Fraud service at CDC for 2023/24, which had previously been presented to the July 2023 meeting of the Committee. The Plan supported the Council's Anti-Fraud and Corruption Strategy by ensuring that the Council had proportionate and effective resources and controls in place to prevent and detect fraud as well as investigate those matters that did arise.

Resolved

(1) That the summary of activity against the Annual Counter Fraud Plan for 2023/24 be noted.

40 **External Audit Progress 2021/22**

The External Auditor gave a verbal update and advised the Committee that most fieldwork was complete. Some follow up work was being undertaken including some queries to the technical team which, once resolved, should allow the conclusion of audit.

Resolved

(1) That the verbal update be noted.

41 **Treasury Management Mid Year Review**

The Assistant Director of Finance submitted a report that updated the Committee on treasury management performance and compliance with treasury management policy for 2023-24 as required by the Treasury Management Code of Practice.

In introducing the report, the Portfolio Holder for Finance advised that all treasury management activities undertaken to date during the financial year 2023-24 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during the reporting period. Over the course of the year, there was an overall Treasury Management forecast underspend of £1.214m compared to the approved budget.

In response to Committee questions in relation to subsidiary companies, the Portfolio Holder for Finance explained that Graven Hill was a commercial business and published its accounts accordingly. The Shareholder Committee was responsible for monitoring the performance of Graven Hill.

In response to Members' questions relating to internal and external borrowing, the Head of Finance explained that internal borrowing was when existing funds to finance the cash flow of the council's capital expenditure rather than borrowing externally immediately for the programme which saved the council on interest charges.

The Head of Finance undertook to provide a written response on questions regarding the monitoring and dividends of shares invested in non-treasury funds, maturity structure of borrowing and capital expenditure grants.

Resolved

(1) That the Treasury Management Mid-Year Review Report be noted.

42 **Local Code of Corporate Governance**

The Assistant Director of Law and Governance submitted a report to review of the Local Code of Corporate Governance. The Code was part of the overall system of internal control at the Council and supported the provision of the Annual Governance Statement (AGS) which was approved annually by the Accounts, Audit and Risk Committee.

Resolved

(1) That the Local Code of Corporate Governance be agreed.

43 **Financial Management Code - Forecast Self-Assessment Update**

The Assistant Director of Finance submitted a report which updated the Committee on the results of the Council's forecast self-assessment position at February 2024 against the requirements of CIPFA's Financial Management Code. There was continued strong compliance, demonstrating a resilient and sustainable approach to managing the Council's funds.

Resolved

(1) That the Council's forecast self-assessment position at February 2024 against the requirements of CIPFA's Financial Management Code be noted.

44 **Work Programme**

The Head of Finance updated the committee on the work programme.

Resolved

(1) That the Work Programme be noted.

45 **Urgent Business**

There were no items of urgent business.

The meeting ended at 7.27 pm

Chairman:

Date:

This page is intentionally left blank

Cherwell District Council

Accounts Audit and Risk Committee

17 January 2024

Internal Audit Progress Report 2023/24

Report of the Assistant Director of Finance

This report is public.

Purpose of report

The report presents the Internal Audit progress report for 2023/24. Since the last update to the September 2023 meeting of the Accounts, Audit & Risk Committee three audits have now been finalised: Climate, Revenues & Benefits IT Applications, and Business Continuity. The executive summaries from these audits are included within this report.

The implementation status of previously agreed management actions continues to be positive across the organisation, with good rates of implementation and evidence that other actions are being actively progressed.

1.0 Recommendations

The meeting is recommended:

1.1 To note the progress with the 2023/24 Internal Audit Plan and the outcome of the completed audits.

2.0 Introduction

2.1 This report provides an update on the Internal Audit Service, including resources, completed and planned audits.

2.2 Each progress report includes the Executive Summaries from the individual Internal Audit reports finalised since the previous update to the committee and also an update on the implementation of agreed management actions.

3.0 Report Details

Resources

3.1 A full update on resources was made to the Accounts, Audit & Risk Committee in July 2023 as part of the Internal Audit Strategy and Plan for 2023/24. Since then we have continued with our efforts to try and recruit to our two Senior Auditor vacancies, which has been unsuccessful. We did appoint a temporary Senior Auditor to assist with the completion of quarter 4 activity, however unfortunately they withdrew two weeks before starting. Also during quarter 3 our Auditor resigned and left. At the start of quarter 4 one of the Principal Auditors commences her maternity leave.

3.2 We will be able to complete the internal audit plan for 2023/24, however we have provided notice to Cherwell District Council that we will be unable to provide the service after April 2024. Members of the Accounts, Audit & Risk Committee were updated on this position in a verbal update to the November 2023 committee meeting and it was also discussed in the annual private meeting held with the committee members in November 2023.

3.3 We will be working closely with the Assistant Director of Finance to ensure a smooth handover to the new provision of both Internal Audit and Counter Fraud Services for 2024/25.

2023/24 Plan Progress

3.3 The 2023/24 Internal Audit Plan, which was agreed at the July 2023 Accounts, Audit & Risk Committee, is attached as Appendix 1 to this report. This shows current progress with each audit. The plan and plan progress are reviewed quarterly with senior management.

3.4 Since the last update to the July 2023 committee, the audits of Climate, Revenues & Benefits IT Applications, and Business Continuity have been completed. The executive summaries are included within Appendix 3 to this report.

Performance

3.5 The following performance indicators are monitored on a monthly basis.

Performance Measure	**Target**	**% Performance Achieved for 23/24 audits (as at 11/12/23)**	**Comments**
Elapsed time between start of the audit (opening meeting) and exit meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	75%	Performance has been impacted due to the number of vacant posts currently within the team.

			Previously reported year-end figures: 88% 2022/23 67% 2021/22 78% 2020/21
Elapsed time for completion of audit work from exit meeting to issue of draft report.	15 days	100%	Previously reported year-end figures: 71% 2022/23 100% 2021/22 100% 2020/21
Elapsed Time between receipt of management responses to draft report and issue of final report.	10 days	100%	Previously reported year-end figures: 100% 2022/23 56% 2021/22 88% 2020/21

3.6 The other performance indicators are:

- % of 2023/24 planned audit activity completed by 30 April 2024 – reported at year end.
- % of management actions implemented – see paragraphs below.

Implementation of Agreed Management Actions

3.7 Outstanding management actions from 2018/19 and 2019/20 audits were taken over for monitoring from the previous internal audit provider. It should be noted that significant progress has been made by officers to address and implement these with now only 3 actions still open and in progress. These actions now form part of the implementation of the new recruitment and selection module and are planned for completion by the end of quarter 4. These will continue to be reviewed and followed up with senior management.

3.8 All actions for 2020/21 have now been reported as implemented. We agreed a total of 82 actions for the work completed as part of the 2021/22 Internal Audit Plan, 69 of these actions have been implemented and 2 have been superseded. Of the remaining 11 actions, 8 are not yet due for implementation (includes where original implementation date moved), and 3 are now due. We agreed a total of 60 actions for the work completed as part of the 2022/23 internal audit plan, 51 of these actions have been implemented, 5 are not yet due for implementation (includes where original implementation date moved), and 4 have recently become due. For the work completed so far during 2023/24, a total of 29 actions have been agreed. 2 of these actions have been implemented, of the remaining 27 actions, 20 are not yet due for implementation and 7 have recently become due. – these will be continued to be followed up. The overall implementation rate is currently at 73%. An average implementation rate of 70% and over is considered to be a good implementation rate.

External Assessment of Internal Audit – November 2023

3.9 Internal audit within the public sector is governed by the Public Sector Internal Audit Standards (PSIAS). It is a requirement of the standards for each public sector internal audit provision to be subject to an external assessment against those standards every five years. Ours was completed in November 2023 by an assessor from Cipfa (Chartered Institute of Public Finance and Accountancy).

3.10 The results of the assessment were very positive, with an overall conclusion that Oxfordshire County Council's Internal Audit Service FULLY CONFORMS to the requirements of the standards. There were no areas of either partial or non-conformance with the standards identified and no recommendations arising. The full report has been included within Appendix 4 of this report.

3.11 There were six advisory issues included within the assessor's report, five related to matters of good practice and one was a generic issue relating to the future of the standards. All of these advisory issues are already in progress or are now being considered and will be actioned.

4.0 Conclusion and Reasons for Recommendations

4.1 This report provides a progress update on delivery of the internal audit plan for 2023/24 and provides an update on the implementation of management actions for the committee to consider. The current plan for 2023/24 is on target for delivery by the end of April 2024.

5.0 Consultation

Not applicable.

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: No alternative options have been identified as this report is for information only.

7.0 Implications

Financial and Resource Implications

7.1 **Financial and Resource Implications**

7.1 The are no financial implications arising directly from this report.

Comments checked by:
Michael Furness, Assistant Director of Finance, 01295 221845
michael.furness@cherwell-dc.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from this report.

Comments checked by:
Shiraz Sheikh, Monitoring Officer & Assistant Director Law, Governance and Democratic Services (interim)
shiraz.sheikeh@cherwell-dc.gov.uk

Risk Implications

7.3 There are no risk management issues arising directly from this report.

Comments checked by:
Celia Prado-Teeling, Performance & Insight Team Leader, 01295 221556
Celia.prado-teeling@cherwell-dc.gov.uk

Equalities and Inclusion Implications

7.4 There are no equalities and inclusion implications arising directly from this report.

Comments checked by:
Celia Prado-Teeling, Performance & Insight Team Leader, 01295 221556
Celia.prado-teeling@cherwell-dc.gov.uk

Sustainability Implications

7.5 There are no sustainability implications arising directly from this report.

Comments checked by:
Jo Miskin, Climate Action Manager, 01295 221748,
jo.miskin@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision (N/A)

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

Wards Affected

All

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Adam Nell – Portfolio Holder for Finance.

Document Information

Appendix number and title

- Appendix 1 – Internal Audit Plan 2023/24 – Progress Update
- Appendix 2 – Outstanding Management Actions
- Appendix 3 – Executive Summaries of finalised audits
- Appendix 4 – External Assessment of Internal Audit against Public Sector Internal Audit Standards

Background papers

None

Report Author and contact details

Sarah Cox, Chief Internal Auditor, sarah.cox@cherwell-dc.gov.uk

APPENDIX 1: 2023/24 CDC Internal Audit Plan – Progress Report

Audit	Planned Qtr Start	Status as at 20/12/23	Conclusion
Strategic Contract Governance	Qtr 3	Planned for Q4	
Utilities Management	Qtr 2	Draft Report	
Payroll	Qtr 3 / Qtr 4	Planned for Q4	
Community Development Projects	Qtr 1	Final Report	Amber
Climate	Qtr 1	Final Report	Amber
Business Continuity	Qtr 1	Final Report	Amber
IT - Revenues and Benefits IT Application Review	Qtr 2 / Qtr 3	Final Report	Green
IT – IT Governance	Qtr 4	Fieldwork	
Grant Certification • Changing Places • Disabled Facilities Grant	Sept	Complete	-

This page is intentionally left blank

Appendix 2 – Open management actions as at 11th December 2023

2018/19 – outstanding open actions (planned for completion in Q4 2023/24)

Report Title	Total outstanding	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC HR 2018/19	3	-	-	3	-
Totals	**3**	**-**	**-**	**3**	**-**

2021/22 - all actions

Report Title	Total agreed	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC Key Finance Systems 21/22	10	10	-	-	-
CDC Treasury Management 21/22	5	5	-	-	-
CDC Wellbeing and Sickness Management 21/22	5	2	-	3	-
CDC PCI 2021/22	9	7	1	1	-
CDC IT Remote Working 21/22	11	11	-	-	-
CDC GDPR 21/22	9	6	-	3	-
CDC Cyber Security Follow Up 21/22	9	8	1	-	-

CDC Payroll 21/22	10	9	-	-	1
CDC Waste Service 21/22	14	11	-	1	2
Totals	**82**	**69**	**2**	**8**	**3**

2022/23 – all actions

Report Title	Total agreed	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC IT Infrastructure 22/23	5	5	-	-	-
CDC Cyber Security 22/23	14	14	-	-	-
CDC Health & Safety 22/23	20	15	-	5	-
CDC Contract Management 22/23	4	1	-	-	3
CDC Capital Programme 22/23	2	1	-	-	1
CDC IT Disaster Recovery 22/23	5	5	-	-	-
CDC Temp Accommodation 22/23	4	4	-	-	-
CDC Revs & Bens 22/23	6	6	-	-	-
Totals	**60**	**51**	**-**	**5**	**4**

2023/24 – all actions as at 11/12/23

Report Title	Total agreed	Implemented	Superseded	Target date not reached or extended	Target date reached – overdue or being implemented
CDC Community Development Projects 23/24	9	-	-	5	4
CDC Climate 23/24	14	-	-	12	2
CDC Revs and Bens IT Application 23/24	6	2	-	3	1
Totals	**29**	**2**	**-**	**20**	**7**

This page is intentionally left blank

APPENDIX 3 – Executive Summaries finalised since last update to Accounts, Audit & Risk Committee September 2023

Climate 23/24

Overall conclusion on the system of internal control being maintained	**A**

RISK AREAS	**AREA CONCLUSION**	**No of Priority 1 Management Actions**	**No of Priority 2 Management Actions**
Strategy and Scope	**G**	**0**	**2**
Governance	**A**	**1**	**1**
Reporting and Monitoring	**A**	**0**	**4**
Service Planning and Performance Monitoring	**A**	**0**	**4**
Risk Management	**n/a**	**0**	**0**
Procurement	**A**	**1**	**0**
Capital Planning	**A**	**0**	**1**
		2	**12**

Opinion: Amber	
Total: 14	Priority 1 = 2 Priority 2 = 12
Current Status:	
Implemented	0
Due not yet actioned	2
Partially complete	0
Not yet Due	12

Leading on Environmental Sustainability forms one of four overarching objectives for Cherwell District Council identified in the Business Plan approved by Council in February 2023 and its response to the Climate Emergency is one of the Council's ten key Strategic Priorities in the 2023/24 Annual Development Plan. The Council has declared a climate emergency and made a public commitment to be carbon neutral from its own operations by 2030. The Council works closely with countywide partners to tackle climate issues, including initiatives such as the Oxfordshire Net Zero Route Map and Action Plan. The Council's approach to tackling the climate emergency is set out in the 2020 Climate Action Framework. At the time that commitment was made, and the Climate Action Framework written, Cherwell District Council was working in partnership with Oxfordshire County Council and there was a climate team in place to drive this agenda forward across both councils. Following the decoupling in 2022, a dedicated Climate Action Manager has been appointed, there is also a part time Climate Officer post which is currently vacant. The audit has reviewed the arrangements in place to meet the Council's climate ambitions and address climate change risks.

Significant progress has been made since the Council began monitoring emissions compared to the baseline of 2008-09. A number of major projects have been completed which have contributed to this, and more are currently in progress. However, there are some areas where the Council could improve processes and controls to ensure that its ambitious targets are more likely to be achieved. These are explained in more detail below.

Strategy and Scope – The Council's climate ambitions are clearly documented, and a member working group has been established which reports to Overview and Scrutiny to provide oversight and challenge to achievement of the documented ambitions. A strengthened communication strategy will help to ensure that all stakeholders are aware of how they can contribute to achieving the two targets "to be net carbon neutral from our operations and activities by 2030" and "to do our part to achieve a zero-carbon district by 2030 and lead by example" and will increase the likelihood of these objectives being achieved.

Governance – There is evidence of some reporting on climate actions to Extended Leadership Team, the Strategic Place Shaping Board, the Executive and the Overview & Scrutiny Committee. However, data on the council's emissions, the latest annual Greenhouse Gas Report covering 2021/22 released in January 2023, has not been reported to the Executive or Overview & Scrutiny Committee, either as a standalone item or as part of routine performance monitoring. Management have reported that this was delayed due to the decoupling from the shared County Council Carbon Team. This report is expected in the next quarter. The strengthening of governance arrangements will help to ensure that there is regular and systematic oversight of overall progress towards the Council's climate targets.

Reporting and Monitoring – The emissions KPI that was being reported monthly (fleet fuel consumption) represented less than 40% of the Council's total emissions (as reported by the Greenhouse Gas Report) and has now been discontinued, so for 2023-24 there is only one KPI specifically relating to climate which is the % of EV within the fleet, which is to be measured annually. This means that there is no regular monitoring of progress towards the Council's climate ambitions. The yearly greenhouse gas report does however provide a fuller picture of the Council's emissions and progress towards its climate ambitions. It is also noted that the current greenhouse gas reporting shows the direction of travel rather than any comparison between actual and target emissions. Without effective and appropriate monitoring and reporting on the Council's climate ambitions, there is a risk that performance issues will not be identified and rectified promptly, and that achievement of its climate ambitions will be negatively impacted.

Service Planning and Performance Monitoring – The Council's Annual Delivery Plan includes a priority and a delivery theme on climate action but does not include any specific actions. Service Plans for each service area were requested, and most of those provided did include some actions to contribute to the climate agenda however the audit noted that this is an area which could be developed further to provide more detail on how each service can contribute to the achievement of the Council's climate objectives. It is noted that there is currently no process for the Climate Action Manager to be involved in review of service plans to ensure that relevant climate issues have been identified and appropriately considered. A transformation process, overseen by the Transformation & Digital Futures Programme Delivery Board, has just commenced, which includes climate action as one of its guiding principles. A plan to deliver Carbon Literacy Training to relevant staff is currently being developed.

Procurement – The council has not yet identified the emissions embedded in its supply chain or articulated a plan to reduce them. It could not be evidenced that services are taking action to reduce carbon from procurement, apart from some references to reducing paper and printing. If emissions from procurement are not effectively managed there could be a lost opportunity to contribute to the council's climate ambitions. The draft climate action plan currently being developed includes actions to address this however these are listed as "aspirational" rather than "planned". Management have reported that going forward the new procurement strategy makes reference to including data on supply chain emissions in all new procurement activity.

Capital Planning – It is positive to note that a number of major projects have been carried out to reduce emissions, including decarbonisation projects in Leisure Centres and other buildings, which have addressed some of the Council's highest emissions. Further improvements could be achieved by producing an up-to-date strategy / documented plan which sets out all the Council buildings, how much carbon they currently produce and the plan to reduce this over the remaining years to 2030. There is a current documented strategy to reduce emissions from the Council's vehicle fleet. Management have reported that a new asset strategy is being developed which will provide an opportunity to consider improvements to or disposal of surplus or poor performing assets over the next five years.

Revenues and Benefits IT Application Review 23/24

Overall conclusion on the system of internal control being maintained	**G**

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Logical Security	**G**	**0**	**0**
Access Rights	**A**	**1**	**1**
System Administration	**A**	**0**	**4**
Audit Trails	**G**	**0**	**0**
Data Backups	**G**	**0**	**1**

System Support	**G**	**0**	**0**
		0	**6**

Opinion: Green	
Total: 6	Priority 1 = 0 Priority 2 = 6
Current Status:	
Implemented	2
Due not yet actioned	1
Partially complete	0
Not yet Due	3

The Capita One IT Revenue and Benefits' system moved from an on-premises system to a cloud-based solution in 2021. System administration is performed by a core systems support team and controls are in place to manage the key risks. The areas where controls need to be improved is the management of user accounts and access rights. Details of the control improvements identified are provided below.

Logical Security:

The Revenue and Benefits' system is only accessible from the corporate network and is not available from any other external location. Users are required to authenticate to the network and the same credentials are used to authenticate to the system, using the principles of single sign-on. A review of the network password policy confirmed it is configured in accordance with good practice. Each user has a unique account on the system, ensuring there is clear accountability for all access.

Access Rights:

User access rights within the system are defined using groups and a user can be a member of more than one group and be given additional permissions depending on their role. There has been no formal review of access rights since the system was implemented in 2021, which presents a risk that some users may have a higher level of access than required for their role. This can lead to unauthorised changes being made.

System Administration:

System administration is performed by a designated system support team, which has five members of staff and are split across revenues and benefits, ensuring there is no key person dependency. We have identified risks relating to the management of user accounts, which could lead to new users not being appropriately authorised, granted incorrect access rights and leaver accounts not being disabled on a timely basis. A copy of the password for a system administrator account is also not held securely and could be compromised for unauthorised access.

Audit Trails:

The system has an audit trail facility which logs all user activity, including system administrator actions such as changes to user access rights. The audit event logs are available from when the system was implemented in 2021.

Data Backups:

As the system is cloud hosted, the supplier is responsible for taking data backups. This responsibility is included in the contract, but aspects of backup operations are not sufficiently defined and should be confirmed with the supplier, including that copies are safeguarded from ransomware attacks.

System Support:

There is a formal contract with the supplier that is valid until March 2026 and includes software maintenance. Users report any system issues/errors to the systems support team and if they can't resolve the problem, they log a support call with the supplier. There were 27 open support calls at the time of the audit and whilst some date back to 2022, it was confirmed that they have been recently updated with progress and are kept under review at a quarterly meeting with the supplier.

Business Continuity 2023/24

Overall conclusion on the system of internal control being maintained	A

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
Corporate Policy	A	0	1
Management Framework	A	0	2
Business Impact Analysis	A	0	1
Business Continuity Plans	A	1	1
Incident Response	A	0	1
Testing	A	1	0
		2	6

Appendix 1 provides a definition of the grading for each of the conclusions given.

Opinion: Amber	
Total: 8	Priority 1 = 2 Priority 2 = 6
Current Status:	
Implemented	1
Due not yet actioned	0
Partially complete	0
Not yet Due	7

There is a management structure in place for overseeing business continuity that includes access to specialist skills and advice. We found that service areas/teams have documented continuity plans, although there are some exceptions and none of the plans have been finalised and approved. The corporate business continuity strategy is out-of-date, and testing of plans has not been performed, which is a key risk to the organisation.

Corporate Policy:

There is a documented Business Continuity Strategy from 2018. We are also informed a Business Continuity Statement of Intent and Business Continuity Framework were adopted in 2019, however, they were not available for review at the time of the audit. These documents should be reviewed, rationalised as appropriate and formally approved. It is important that retained documents set out clear management support and direction for business continuity.

There is an Incident Management Framework which was approved in 2022 and is referenced below under Incident Response.

Management Framework:

The Head of Regulatory Services and Community Safety has recently been appointed as the lead operational officer for business continuity management and is supported by the Emergency Planning team at Oxfordshire County Council (OCC). We found that the specific responsibilities of the lead officer are not documented and there was only a draft service level agreement for the OCC service. Since issue of the draft report, the service level agreement has now been finalised.

A Business Continuity Steering Group (BCSG) is used to manage business continuity across the council and has representatives from different service areas/teams. BCSG meetings are getting back on track after some key personnel changes. Whilst BCSG ensures there is engagement with services areas, there is no formal awareness programme to ensure all staff in service areas/teams are aware of their local business continuity plans, which could lead to delays in them being implemented.

Business Impact Analysis:

A Business Impact Analysis (BIA) is used to identify all critical services and activities and underpins the business continuity planning process. The BIA template includes key information required for business continuity, such as the identification of critical services/activities, the impact of their loss over an increasing timeline, Maximum Acceptable Outage (MAO) and the Recovery Time Objective (RTO). A review of the status of BIA's found that one has not been completed for Democratic and Elections and the majority have yet to be finalised and approved.

Business Continuity Plans:

We sample tested a number of service areas/teams and confirmed they have a documented business continuity plan, with the exception of Democratic & Elections. None of the plans have been formally approved and some are not based on the latest template and hence do not include all relevant details. This presents a risk to the council that service areas are not able to maintain their critical services following a major incident.

Critical suppliers and partners are identified in BIAs, but no assurances are sought that they have business continuity plans in place. Secondary supply sources are also not identified for key services/products, and this presents a risk of a supply chain failure impacting key council services/activities.

Incident Response:

There is a documented Incident Management Framework (IMF) for responding to major incidents. A review of the IMF found that it covers many of the areas we would expect to find, although there are some gaps and details which need to be further defined. The IMF has not been exercised in the last 12 months to gain assurance that it is effective for managing a major incident.

Testing:

There has been no testing of business continuity plans. Plans were invoked during the covid-19 pandemic, however there is no testing strategy or plan to support the routine testing of plans. The lack of testing plans presents a key risk to the council.

This page is intentionally left blank

CIPFA

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Oxfordshire County Council's Internal Audit Service

Oxfordshire County Council's Internal Audit Service

Table of contents

1. Introduction

1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments (EQA), or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the Internal Audit Service's own self-assessment at least once in a five-year period.

2. Background

2.1 The Internal Audit Service provides the internal audit services to Oxfordshire County Council and around 200 days to Cherwell District Council. The Chief Audit Executive is the Council's Chief Internal Auditor (CIA). Below the CIA post is an Audit Manager, two Principal Auditors, two Senior Auditor posts (both of which were vacant at the time of the EQA), an Auditor and an Assistant Auditor. The Services structure chart shows the CIA post as being 0.7 of a full time equivalent (FTE), the Audit Manager post as being 0.8 of an FTE, and one of the Principal Auditor posts as being 0.6 of an FTE. The rest of the posts all appear to be FTEs. Given the fact that Internal audit is providing services to other local authorities, this appears to be quite a lean structure. However, since we undertook the field work for this EQA, the CIA has advised us that they have secured the services of a temporary Senior Auditor until at least the end of the financial year and have commenced the recruitment processes for the two vacant Senior Auditor posts. We have also been advised that a recruitment process for an audit apprentice will commence early in 2024. The CIA is however aware that there is a dire shortage of experienced and/or qualified internal auditors across the country and as such they may not be successful in filling the vacant posts. With this in mind it would be prudent to develop a mid/long term resourcing strategy for the Service and we have included this as an advisory action in section 8 of the report.

In addition to the in-house team, the Service uses some external partners and has contracts in place with a specialist IT Auditor for the provision of one hundred days of IT audit per annum, and a separate contract with a major accountancy firm for the delivery of specific audit reviews and, when needed, additional general audit resources for the Service to use and manage.

2.2 The CIA is an experienced internal audit professional who is a Chartered Internal Auditor. The Audit Manager is also an experienced internal audit professional and is also a Chartered Internal Auditor. The two Principal Auditors are both experienced and are also Chartered Internal Auditors. The Auditor and Assistant Auditor are both undertaking training for a relevant internal audit qualification.

2.3 From an operational perspective, the Internal Audit Service is part Oxfordshire County Council's Resources Directorate, with the CIA being line managed by the Assistant Director of Finance with direct reporting lines to the Council's Executive Director of Resources (the Section 151 Officer) and to the Chair of the Audit and Governance Committee. The CIA meets regularly with the Executive Director of Resources and the Council's Director of Law and Governance (the Monitoring Officer) and has direct access to the Council's Chief Executive.

2.4 For Cherwell District Council, the CIA reports directly to the Assistant Director of Finance (the Council's Section 151 Officer) and meets regularly with him. The CIA also meets with the Council's Chief Executive Officer, the Monitoring Officer, and the

Chair of the Accounts, Audit and Risk Committee. However, we understand from the CIA that since we completed the field work stage of the EQA, the Service has now given notice to Cherwell District Council that they intend to end the arrangement with them at the end of the 2023/24 year.

2.5 The Internal Audit Service has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment (EQA) that they have commissioned, the previous one being in 2018 and was also undertaken by CIPFA.

2.6 Internal Audit has an audit manual that provides the auditors with a comprehensive guide to all aspects of performing an internal audit or consultancy assignment and is cross referenced to the PSIAS and the LGAN. The Service uses standard templates for all terms of reference, engagement working papers, testing schedules, and audit reports, with completed documents retained in the Service's dedicated network drive. Supervision of the engagements takes place at every stage of the process and is recorded on the appropriate documentation.

2.7 There is a quality assurance process in place that includes internal and external quality assessments of the Service, reviews of live engagements, a post-audit client feedback survey, and final clearance of all completed reports by either the CIA or the Audit Manager, all of which feed into the Internal Audit Service's Quality Assurance and Improvement Programme (QAIP).

3. Validation Process

3.1 This validation of the Service's self-assessment comprised a combination of a review of the evidence provided by Internal Audit; a review of a sample of completed internal audits; a survey that was sent to and completed by a range of stakeholders; and interviews with key stakeholders, using MS Teams. The interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

3.2 The Internal Audit Service provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:

- self-assessment against the standards;
- quality assurance and improvement plan (QAIP);
- evidence file to support the self-assessment;
- the audit charter;
- the annual report and opinions
- the audit plan and strategy;
- audit procedures manual;
- a range of documents and records relating to the team members;
- progress and other reports to the Governance Committee.

All the above documents were examined during this EQA.

3.3 The main phase of the validation process was carried out during the week commencing 9 October 2023, with further work undertaken during the following weeks. This phase of the EQA involved a review of a sample of audit files and interviews with a sample of key stakeholders from Oxfordshire County Council and from Cherwell District Council. Overall, the feedback from the interviewees was positive with clients valuing the professional, knowledgeable, and objective way the Internal Audit Service delivered their services.

3.4 The assessor reviewed examples of completed audits from both organisations to confirm his understanding of the audit process used at the Council, and to determine how Internal Audit has applied the PSIAS and LGAN in practice.

4. Opinion

It is our opinion that the self-assessment for the Oxfordshire County Council's Internal Audit Service is accurate, and we therefore conclude that the Internal Audit Service FULLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

4.1 The table below shows the Internal Audit Service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	**Fully Conforms**
Core principles	**Fully Conforms**
Code of ethics	**Fully Conforms**
Attribute standard 1000 – Purpose, Authority and Responsibility	**Fully Conforms**
Attribute standard 1100 – Independence and Objectivity	**Fully Conforms**
Attribute standard 1200 – Proficiency and Due Professional Care	**Fully Conforms**
Attribute standard 1300 – Quality Assurance and Improvement Programmes	**Fully Conforms**
Performance standard 2000 – Managing the Internal Audit Activity	**Fully Conforms**
Performance standard 2100 – Nature of Work	**Fully Conforms**
Performance standard 2200 – Engagement Planning	**Fully Conforms**

Standard / Area Assessed	Level of Conformance
Performance standard 2300 – Performing the Engagement	**Fully Conforms**
Performance standard 2400 – Communicating Results	**Fully Conforms**
Performance standard 2500 – Monitoring Progress	**Fully Conforms**
Performance standard 2600 – Communicating the Acceptance of Risk	**Fully Conforms**

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an Internal Audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in Internal Audit's procedures and working methodologies and Internal Audit are a competent, experienced, and professional Service that conforms to all ten elements of the Core Principles.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that the Internal Audit Service conforms to the Code of Ethics, and this is embedded in their procedures, and their audit methodologies. The code of ethics is part of their overarching culture and underpins the way the Service operates.

5.4 Attribute Standard 1000 – Purpose, Authority and Responsibility

The purpose, authority and responsibility of the Internal Audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must *be reviewed regularly and presented to senior management and the audit panel for approval.*

There are separate audit charters in place for each authority, and these are reviewed on an annual basis. We reviewed these documents and found them to be comprehensive and well written and contain all the elements that the PSIAS expects to be included in an audit charter. We are satisfied that the Internal Audit Service conforms to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the Internal Audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of any Internal Audit Service's culture. The CIA reports in her own name directly to the Senior Management Teams at each authority, and to the Audit and Governance Committee at Oxfordshire County Council and the Accounts, Audit and Risk Committee at Cherwell District Council. All employees declare any potential impairment to their independence or objectivity on recruitment to the Service and again on an annual basis.

We have reviewed the Internal Audit Service's procedures and their standard documentation; their quality assurance and improvement plan; and a small sample of completed audits. We have also reviewed their reporting lines and their positioning within both authorities. In addition to internal audit, the CIA has responsibilities for the County Council's counter fraud function and the provision of counter fraud services to Cherwell District Council as part of their internal audit contract with that Council. Whilst it is common for CIA's to be responsible for counter fraud alongside internal audit, the PSIAS does not regard it as being part of the mainstream internal audit function, and as such it should be subjected to periodic review by internal audit. It would therefore be prudent to include a review of the counter fraud function in future audit plans, and to maintain a sound level of independence and objectivity, to use the Internal Audit Service's external partner to do the review, rather than the in-house team. We have therefore included an advisory action in section 8 of this report to this extent.

Notwithstanding the above observation, we are satisfied that the Internal Audit Service conforms with attribute standard 1100 and the LGAN.

5.6 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires the Internal Audit Services' engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

As mentioned above, the CIA is an experienced internal audit professional who is a Chartered Internal Auditor. The Audit Manager is also an experienced internal audit professional and is also a Chartered Internal Auditor. The two Principal Auditors are both experienced and are also Chartered Internal Auditors, and one of which has also gained an IT audit qualification. The Auditor and Assistant Auditor are both undertaking training for a relevant internal audit qualification. The team members have sufficient knowledge of the operation of high-level IT controls, and they can incorporate these in their testing for the audits they undertake. The more detailed and complex ICT reviews are undertaken by an external specialist ICT auditor who has a rolling contract with internal audit.

The Standards require internal audit services to consider the use of data analytics when performing their audit reviews. The Service has produced a data analytics strategy and has started to develop this function jointly with the Council's counter fraud function. The primary tools currently used for data analytics are Excel and Business Objectives, although Power BI is now starting to be used within the Council. The team members also make use of the data analytics functionality built into some of the Council's core applications. The Service does not currently have a licence for any specialist data analytics software although they have done in the past (the IDEA data analytics software) and are considering purchasing a new licence for this product. As the functionality of IDEA, and indeed that of other applications such as ACL and Arbutus to name just two, have improved and expanded considerably during the past few years, it is our view that obtaining such a product would enhance the Service's data analytics functionality. We have therefore included this as an advisory action in section 8 of this report. Notwithstanding the above, we feel there are further opportunities to broaden the use of data analytics by making use of external sources of data for benchmarking purposes, such as the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Councils should already have access to, or the data held by the Local Government Association in their LG Inform application. These are useful sources of data for benchmarking that should not be overlooked, particularly when auditors are undertaking research and preparing the terms of reference for audits as benchmarking can highlight areas where there may be scope to add value to the Council's operations, or at least challenge the current thinking. We have included this as an advisory action for management to consider in section 8 of this report.

Standard 1200 expects internal auditors to maintain and enhance their knowledge and this is usually achieved through undertaking relevant training. When a team member has completed relevant training, it is recorded on a central record for the service. However, internal auditors also enhance their knowledge and understanding through other means, such as reading technical journals and undertaking research prior to commencing audits. This is an important and valid element of an internal auditor's learning and development, and although this is recognised as good practice, most of the team do not tend to formally record this on the learning and development records. The team members that are studying for professional qualifications do, however, record it in their training logs. We have therefore included an advisory action in section 8 of this report.

It is evident from this review that the Internal Audit Service's employees are experienced and well qualified and perform their duties with due professional care. We are therefore satisfied that the Internal Audit Service complies with attribute standard 1200 and the LGAN.

5.7 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Head of Audit to develop and maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit activity.

The Internal Audit Service has developed an effective quality assurance process which feeds into their quality assurance and improvement programme that ensures engagements are performed to a high standard. Supervision of audit engagements is carried out at all stages of the audit and is recorded throughout the audit process. The Service uses post audit client satisfaction surveys for the audits they undertake, and in addition to the quinquennial EQA, carry out annual self-assessments of their conformance to the Standards and the LGAN. In addition, the County Council's Monitoring Officer carries out an annual survey of managers to assess the effectiveness of the Internal Audit Service. All these feed into the Service's quality assurance and improvement plan (QAIP). Updates on completing the actions in the QAIP are made to the Governance Committee.

We have examined the supporting evidence provided by the Internal Audit Service during this EQA and, we are satisfied that they conform to attribute standard 1300 and the LGAN.

5.8 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Chief Audit Executive to manage the Internal Audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when Internal Audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Chief Audit Executive must produce an audit plan and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Governance and Ethics Committee for their review and approval. The Chief Audit Executive must ensure that Internal Audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Chief Audit Executive to establish policies and procedures to guide the Internal Audit activity, and to share information, co-ordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Chief Audit Executive to report periodically to senior management and the Governance Committee on Internal Audit's activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit committee.

The Internal Audit Service has a comprehensive audit manual in place that covers all aspects of the Internal Audit Service. They have developed comprehensive planning processes that take into consideration the Council's risks and objectives; the risk management and governance frameworks; the Council's objectives and priorities; any other relevant and reliable sources of assurance that are available; key issues identified by managers during planning meetings; the Service's own risk and audit needs assessments; and any emerging risks identified through horizon scanning and networking with other organisations and regional audit groups. For each authority, the Service produces a risk-based audit plan that is aligned to the relevant Council's objectives and is designed to provide each Council with relevant assurance on their governance, risk management and control frameworks. The audit plans are reviewed and approved by the respective Senior Management Teams and Audit Committees.

Details of the completed audits, together with regular updates on the progress being made on delivering the audit plans and the performance of the Internal Audit Service, are reported regularly to the respective Senior Management Teams and the Audit Committees. An annual report and opinion is produced for each authority at the end of the year and presented to the respective Senior Management Team and Audit Committee.

The clear indication from this EQA is that the Internal Audit Service is managed effectively and conforms to standard 2000 and the LGAN.

5.9 **Performance Standard 2100 – Nature of Work**

Standard 2100 covers the way the Internal Audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by the Internal Audit Service and is embedded in their working methodologies. During this EQA, we reviewed a small sample of completed audits and examined them to see if they conformed to standard 2100, the LGAN and Internal Audit's own methodologies. We found that all the sample audits examined during the EQA complied with all three.

The clear indication from this EQA is that the Internal Audit Service conforms to performance standard 2100 and the LGAN.

5.10 **Performance Standard 2200 – Engagement Planning**

Performance standard 2200 requires Internal Auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As mentioned above, the Service has an audit manual and robust supervision processes in place, that include engagement planning, and meets the requirements of the PSIAS. From the sample of audits that we examined during the EQA, we found that they all conformed to standard 2200, the LGAN, and the Service's own audit procedures, and we therefore conclude that Internal Audit conforms to performance standard 2200 and the LGAN.

5.11 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that Internal Auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

The Internal Audit Service has an audit manual, sound supervision arrangements, and quality assurance processes in place that meet the requirements of the standards. We reviewed the evidence provided in support of the Service's self-assessment, together with a sample of audits to see if they conformed to the standards, and Internal Audit's own working methodologies. We found that all the evidence we examined conformed to the standards and Internal Audit's own procedures and methodologies. We therefore conclude that Internal Audit conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires Internal Auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit committee and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The Service's procedures and supervision processes cover the communication of results of individual audits and meet the requirements of the PSIAS. During the EQA we reviewed the evidence provided in support of the Service's self-assessment and the audit reports issued for a sample of audits to establish if they conformed to the standards. We found that all the evidence we examined conformed to the standards and Internal Audit's own procedures and methodologies.

We also reviewed the progress and annual reports presented to the respective Audit Committees and found that these also conformed to the standards and the Service's own internal procedures.

We therefore conclude that the Internal Audit Service conforms to performance standard 2400 and the LGAN.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the respective Audit Committee. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the CIA has concluded that managers have accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any examples of this during this review. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

8. Issues for management action

8.1 From our review of the Service's self-assessment we have six advisory issues that management should consider. Five relate to matters of good practice linked to the operation of the Service and not the Service's conformance to the standards, and one is a generic issue relating to the future of the PSIAS for the CIA to consider. These are all set out in the table below:

Issues for management action	Priority
Consideration should be given to developing a mid/long term recruitment and retention strategy for the Internal Audit service.	**Advisory**
Whilst it is common for CIA's to be responsible for counter fraud alongside internal audit, the PSIAS does not regard it as being part of the mainstream internal audit function. It would therefore be prudent to include a review of the counter fraud function in future audit plans, and to maintain a sound level of independence and objectivity, to use the Internal Audit Service's external partner to do the review.	**Advisory**
To enhance the Service's data analytics functionality, consideration should be given to obtaining specialist data analytics software, such as IDEA, ACL, Arbutus etc, to supplement the standard applications (Excel and Power BI) used by the Service.	**Advisory**
The Service's use of data analytics can be enhanced further by making use of external sources of data for benchmarking purposes. Suitable sources of external sources of data are the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Councils should already have access to, and the benchmarking data held by the Local Government Association in their LG Inform application.	**Advisory**
Research for audits and reading technical journals and other publications forms part of an internal auditor's continuous learning and development, however undertaking these activities are not routinely recorded on the central learning and development record for the Service. As this is an important, significant, and valid element of an internal auditor's learning and development, consideration should be given to adding this to the central training records.	**Advisory**
Management should be mindful of the fact that a consultation on revising the Institute of Internal Auditors Global IPPF which is incorporated into the PSIAS, has recently taken place and any changes to the Standards arising from the consultation may affect the Service's future conformance to the Standards. It is, therefore, suggested that the Audit Manager keeps a watching brief on the developments to the Standards and how this may impact the Service in the medium term.	**Advisory**

The co-operation of the Chief Internal Auditor in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the Chairs of the Audit Committees and the key stakeholders that made themselves available for interview during the EQA.

Ray Gard, CPFA, FCCA, FCIIA, DMS

23 November 2023

10. Definitions

Level of Conformity	Description
Fully Conforms	The Internal Audit Service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the individual Standard, the element of the Code of Ethics, and the Local Government Application Note in all material respects. This means that there is general conformance to a majority of the individual Standards, elements of the Code of Ethics, or the Local Government Application note, and at
Partially Conforms	The Internal Audit Service is endeavouring to deliver an effective service however, they are falling short of achieving some of their objectives and/or generally conforming to a majority of the individual Standards, elements of the Code of Ethics, or the Local Government Application note and at least partial conformance to the others. There will usually be significant opportunities to improve the delivery of effective internal audit, and enhance conformance to the Standards, elements of the Code of Ethics, and/or the Local Government Application Note. The Internal Audit Service may be aware of some of these opportunities and the areas they need to develop. Some identified deficiencies may be beyond the control of Internal Audit and may result in actions for Senior Management or the Board of the organisation to
Does Not Conform	The Internal Audit Service is not aware of; not making efforts to comply with; or is failing to achieve many/all of the individual Standards, elements of the Code of Ethics, or the Local Government Application Note. These deficiencies will usually have a significant adverse impact on Internal Audit's effectiveness and its potential to add value and are likely to represent significant opportunities for improvement to Internal Audit. Some identified deficiencies may be beyond the control of Internal Audit and may result in recommendations to Senior Management or the

Action Priorities	Criteria
High priority	The Internal Audit Service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The Internal Audit Service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within a reasonable time scale, for example six months.

Low priority	The Internal Audit Service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

11. Disclaimer

This report has been prepared by CIPFA at the request of Oxfordshire County Council, and the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided to us. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of Oxfordshire County Council's Internal Audit Service, including the Officers and elected Members of the County Council, and Internal Audit's clients, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Cherwell District Council

Accounts, Audit and Risk Committee

17 January 2024

Treasury Management Report – Q3 2023/24 (December 2023)

Report of the Assistant Director of Finance

This report is public.

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2023-24 as required by the Treasury Management Code of Practice.

All treasury management activities undertaken to date during the financial year 2023-24 complied with the CIPFA Code of Practice and the council's approved Treasury Management Strategy, and all of the Treasury Management Prudential Indicators were met during the reporting period.

1.0 Recommendations

The meeting is recommended:

1.1 To note the contents of this Treasury Management report for Q3 2023/24.

2.0 Introduction

2.1 In 2012 the council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the council to approve Treasury Management semi-annual and annual reports.

2.2 The council's Treasury Management strategy for 2023-24 was approved by full council on 27 February 2023. The Treasury indicators have been included in this report as per the 2021 CIPFA Treasury Management in the Public Services Code of Practice.

2.3 The council's Capital Strategy covering capital expenditure and non-treasury investments, complying with CIPFA's requirement, was approved by full council on 27 February 2023.

3.0 Report Details

Summary position and strategy

3.1 The council has continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and borrowing costs.

3.2 As at the end of December 2023 the council had borrowing of £166m and investments of £27m – a net borrowing position of £139m (30/09/23: £150m). This change is primarily due to a £9m decrease in loans extended to subsidiaries within their agreed loan facilities.

3.3 In the Mid-Year Review Report, presented in November 2023, the overall Treasury Management forecast underspend was (£1.214m) compared to the approved budget.

There is a gross forecast underspend at Q3 of (£1.204m) and Exec has subsequently approved that £1.075m be move to the Market Risk Reserve.

The revised forecast, after taking into account the approved movement to reserves, is that over the course of the year there will be an overall underspend of (£0.348m) compared to the approved budget.

Borrowing performance for year as of 31 December 2023

3.4 The council requires external borrowing to fund its capital programme and had a total debt of £166m at the report date. The increased cost of borrowing has resulted in the council moving from an equal mix of short and long-term borrowing to predominantly medium to long term loans from the Public Works Loan Board (PWLB) to provide interest rate certainty. This move was made in July 2022 while rates were still comparatively low.

3.5 The council's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Table 1: Borrowing Position for quarter ended 31 December 2023

	Borrowing Amount £m	**Average Interest Rate**	**Interest Paid Budget £m**	**Interest Paid Actual £m**	**Variance to Date £m**
Apr – Dec 23	170 (average)	2.14%	2.931	2.821	(0.110)
As at 31/12/23	166	2.18%	-	-	-

* Interest payable relates to external loans only, excluding finance lease and other interest

3.6 As a comparison, the table below shows average borrowing rates.

Table 2: High / Low / Average PWLB Rates for 01/04/2023 – 31/12/2023

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

Source: Link

3.7 Interest payable for the full year is forecast to be just below budget. With the rapid increase in interest rates over the last eighteen months, performing to budget is in itself an achievement, and demonstrates good planning and active treasury management.

3.8 A full list of current borrowing is shown below. Planning regarding the refinancing of the £21m PWLB loan due to mature in October 2024 has already begun. A one-year loan for £15m has been put in place to avoid the need to refinance the whole amount. Refinancing will be done through short term loans to take advantage of the expected reductions in interest rates.

Table 3: Borrowing at 31 December 2023

Lender	**Principal Borrowed £m**	**Maturity Date**
PWLB 7-year maturity	21	19/10/2024
PWLB 6-year maturity	6	25/09/2025
PWLB 7-year maturity	6	19/09/2026
PWLB 5-year maturity	10	26/07/2027
PWLB 10-year maturity	10	31/05/2028
PWLB 6-year maturity	5	26/07/2028
PWLB 7-year maturity	10	26/07/2029
PWLB 10-year maturity	6	25/09/2029
PWLB 8-year maturity	10	26/07/2030
PWLB 11-year maturity	6	19/09/2030
PWLB 9-year maturity	16	26/07/2031
PWLB 10-year maturity	15	26/07/2032
PWLB 15-year maturity	5	31/05/2033
PWLB 15-year maturity	5	25/09/2034
PWLB 16-year maturity	5	19/09/2035
PWLB 30-year maturity	5	31/05/2048
PWLB 50-year maturity	25	10/11/2071
TOTAL	**166**	

3.9 The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. The practice of setting a ‘maturity structure of borrowing’ aims to profile the maturity dates of borrowing so that loans don’t all mature at once as this exposes the council to refinancing risk. As an example, if all of the council’s loans had matured in the last 6 months, the council would have been forced to refinance at the highest rates the market had seen in years. Instead, the councils loan maturity dates are spread out. Even if rates are still high when the council needs to refinance some of the first loans in the portfolio to mature, at least the council is only exposed to the higher interest rates on those loans, and not all loans.

The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation. The council feels that having no set lower limit gives officers the best flexibility to react to the economic climate. For example, if a lower limit for 10-year borrowing was set it may force the council to take out loans of that term when rates are high, rather than the council’s preferred strategy of borrowing for shorter periods (still spread out) until rates begin to settle at the level the council’s advisors believe will be the new “normal”.

Table 4: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	0.00%
12 months and within 24 months	50%	0%	12.65%
24 months and within 5 years	60%	0%	22.29%
5 years and within 10 years	70%	0%	40.96%
10 years and above	80%	0%	24.10%

Investment performance for year as of 31 December 2023

3.10 Funds available for investment are on a temporary basis, and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

3.11 The council has seen an increase in interest income in line with rises in the Bank of England base rate. Exploring investment counterparties and analysing opportunities have enabled the council to maximise the returns on its small investment portfolio. Table 5 below shows the investment position during and at the end of the reporting period.

Table 5: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Dec 23	23 (average)	5.04%	(0.379)	(0.884)	(0.505)
As at 31/12/23	27	5.58%	-	-	-

3.12 As a comparison Table 6 below shows average investment returns. The council has an average investment period of 1 month and has outperformed the average return rate of 4.96%.

Table 6: Average Investment Rates for the reporting period

FINANCIAL YEAR TO QUARTER ENDED 29/12/2023						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	24/11/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.95	4.89	4.96	5.10	5.26	5.36
Spread	1.00	1.01	1.22	1.17	1.33	1.77

**SONIA* (*Sterling Overnight Index Average) is an interest rate benchmark published by the Bank of England.*
Source: Link

3.13 While maintaining a balance between security, liquidity and yield the council is always looking for ways to invest sustainably (or green investments). This must be done within the criteria laid out in the approved Treasury Management Strategy with counterparties that meet the council's investment criteria.

The council continues to invest in three of the Money Market funds that meet the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088). These are highlighted in green in Table 7.

3.14 A full list of current investments is shown in Table 7 below:

Table 7: Investments

Counterparty	**Principal Deposited £m**	**Maturity Date / Notice period**
Fixed Term Deposits		
Wakefield Council	2.00	05/01/2024
Development bank of Singapore	3.00	15/01/2024
Crawley Borough Council	5.00	19/01/2024
Cornwall District Council	5.00	22/01/2024
Eastleigh Borough Council	3.00	11/04/2024
Money Market Funds		
Federated Investors UK	3.52	Same day
Legal & General Investment Management	3.88	Same day
Northern Trust Asset Managements	0.31	Same day
CCLA Investment Management Limited	0.02	Same day
Goldman Sachs Asset Management	1.66	Same day
TOTAL	**27.39**	

3.15 Compliance with investment limits are detailed in Table 8 below:

Table 8: Investment Limits

Counterparty	2023/24 Limit £m	Complied?
UK Central Government	Unlimited	Yes
Other Local Authorities	5 each	Yes
Any group of organisations under the same ownership	5 per group	Yes
Approved counterparties – Banks/Building Societies	3 each	Yes
Any group of pooled funds under the same management	5 per manager	Yes
Money Market Funds total	15 in total	Yes

Non-treasury investment activity

3.16 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the council. This is replicated in the government's Statutory Guidance on Local Government Investments, in which the definition of investments also include all such assets held partially for financial return.

3.17 As of the 31st December 2023, the council holds £101.8m of investments in the form of shares (£35.6m) and loans (£66.2m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.

3.18 The loan elements of these non-treasury investments generate a higher rate of return than is earned on treasury investments due to the commercial nature of the loans issued. Table 9 shows the investment position for this reporting period.

Table 9: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
Apr – Dec 23	72.55	7.31%	(3.466)	(4.024)	(0.558)

Overall performance

3.19 The overall performance for the third quarter ending 31 December 2023 is:

Table 10: Overall Treasury Position for the Period

	Budget to date £m	Actual to date £m	Variance to date £m
Borrowing costs	2.931	2.821	(0.110)
Finance lease and other interest	0.190	0.158	(0.032)
Treasury income	(0.379)	(0.884)	(0.505)
Non-treasury income	(3.466)	(4.024)	(0.558)
Surplus to Risk Reserve	0.0	1.075	1.075
Total cost/(income)	**(0.724)**	**(0.853)**	**(0.129)**

3.20 The full year forecast is expected to show an overall positive variance against budget of (£0.348m) as detailed in Table 11 below.

Table 11: Overall Treasury Position Forecast to Year End

	Full Year Budget £m	Full Year Actual £m	Full Year Variance £m
Borrowing costs	3.909	3.762	(0.147)
Finance lease and other interest	0.253	0.175	(0.078)
Treasury income	(0.506)	(1.179)	(0.673)
Non-treasury income	(4.622)	(5.147)	(0.525)
Surplus to Market Risk Reserve	0.0	1.075	1.075
Total cost/(income)	**(0.966)**	**(1.314)**	**(0.348)**

Interest rate forecast

3.21 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. Current market expectations are that the first interest rate cut will take place in May 24, with further 0.25% reduction in the interest rate expected in June, August, September and November before finishing at 3.75% at the December 24 meeting. Link will review their interest rate forecast on the 8 January 2024 and update the council once finalised.

Table 12: Link Forecast Rates published on the 7th November 2023:

Interest Rate Forecasts								
Bank Rate	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%
Cap Econ	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%
5Y PWLB RATE								
Link	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%
10Y PWLB RATE								
Link	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%
Cap Econ	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%	4.10%	4.10%
25Y PWLB RATE								
Link	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%
Cap Econ	4.90%	4.80%	4.60%	4.40%	4.40%	4.50%	4.50%	4.60%
50Y PWLB RATE								
Link	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%
Cap Econ	4.60%	4.50%	4.50%	4.40%	4.40%	4.40%	4.40%	4.40%

Note: ***Capital Economics*** *is an independent economic research business based in London to which Link are comparing their forecasts to demonstrate the market view*

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the council for the period ending 31st December 2023. It is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:
Joanne Kaye, Head of Finance, 01295 221545, Joanne.Kaye@Cherwell-DC.gov.uk

Legal Implications

7.2 The presentation of the Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators.

Comments checked by:
Shahin Ismail, Law & Governance | Interim Head of Legal Services
shahin.ismail@cherwell-dc.gov.uk

Risk Implications

7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary.

Comments checked by:
Julie Miles, Performance Analyst and Developer
01295 221553, julie.miles@cherwell-dc.gov.uk

Equalities Implications

7.4 There are no equalities implications arising directly from this report.

Comments checked by:
Mark Miles, Policy Development Officer
01295 221556, mark.miles@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision: **N/A**

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

Wards Affected

All.

Links to Corporate Plan and Policy Framework

N/A

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title
None

Background papers
None

Report Author and contact details
Janet du Preez – Finance Business Partner – Treasury and Insurance
01295 221606, janet.du-preez@cherwell-dc.gov.uk

Cherwell District Council

Accounts, Audit and Risk Committee

17 January 2024

Capital, Investment and Treasury Management Strategies 2024-25

Report of the Assistant Director of Finance

This report is public

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2024-25.

1.0 Recommendations

The meeting is recommended:

1.1 To recommend the draft strategies for 2024-25 to Executive.

2.0 Introduction

2.1 The Capital and Investment Strategy was introduced for 2019-20, to sit alongside the Treasury Management Strategy. The Capital and Investment Strategy must be approved by Full Council annually and must satisfy the requirements of government legislation and CIPFA guidance.

3.0 Report Details

3.1 The **Capital Strategy** demonstrates how the council takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.2 The **Investment Strategy** relates only to non-treasury management investments. The purpose of the strategy is to demonstrate how the council:
- Makes investment decisions (governance, advice taken etc)
- Demonstrates investments are tied to corporate objectives
- Assesses and monitors risk
- Assesses and monitors return
- Ensures there is appropriate capacity, skills and culture to support its strategy

Investments which are covered by this strategy include such things as:

- Loans to third parties (e.g. subsidiaries, charities, businesses) [Service loans]
- Purchase of shares (in subsidiaries, businesses etc)
- Property

3.3 The **Treasury Management Strategy** sets out the Council's risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.

4.0 Conclusion and Reasons for Recommendations

4.1 The Council must establish and approve an updated Capital and Investment Strategy and Treasury Management Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2021 edition) and Prudential Code Guidance Notes for Practitioners (2021 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 edition) and revised Statutory Guidance on Local Government Investments (Third Edition). Guidance requires the Strategy to be approved by Full Council on an annual basis and, moreover, that any mid-year material changes to the Strategy must also be subject to Full Council approval.

5.0 Consultation

5.1 None

6.0 Alternative Options and Reasons for Rejection

6.1 There are no alternative options – this is a requirement placed upon all local authorities.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from this report as the recommendation is to recommend the strategies to Executive committee. However, if the strategy is approved by Council there will be the following financial implications:

The Capital and Investment Strategy includes an updated Minimum Revenue Provision (MRP) policy which is proposed to be adopted from 2023/24 onwards. This Policy changes the calculation methodology from a straight-line approach to an annuity method – this reflects the time value of money, and so results in a lower charge initially, but increases over the life of the asset. The overall MRP charge required is unchanged – but is instead reprofiled. Over the MTFS period this change in MRP policy is forecast to provide the savings outlined in the below table:

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m
Forecast MRP charge on straight-line basis	5.8	7.4	6.5	6.6	6.5	6.4
Forecast MRP charge on annuity basis	3.7	5.4	4.7	4.9	5.0	5.2
Saving	**2.1**	**2.0**	**1.8**	**1.7**	**1.5**	**1.2**

The 24/25 budget setting process has assumed the move to annuity basis will be approved, and so if this were to not be the case there would be a £2.0m pressure on the 24/25 budget.

Comments checked by:
Joanne Kaye, Head of Finance (Deputy S151 Officer)
01295 221545, joanne.kaye@cherwell-dc.gov.uk

Legal Implications

7.2 The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Local Authorities must also have regard to the Investment Guidance issued by Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Comments checked by:
Shiraz Sheikh, Assistant Director Law & Governance | Monitoring Officer
01295 221651, shiraz.sheikh@cherwell-dc.gov.uk

Risk Implications

7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary.

Comments checked by:
Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

Equalities and Inclusion Implications

7.4 There are no equalities implications arising directly from this report.

Comments checked by:
Celia Prado-Teeling, Performance and Insight Team Leader
01295 221556, celia.prado-teeling@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision: **N/A**

Financial Threshold Met: **N/A**

Community Impact Threshold Met: **N/A**

Wards Affected
All wards are affected

Links to Corporate Plan and Policy Framework
n/a

Lead Councillor
Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

- Appendix 1 - Capital and Investment Strategy 2024-25
- Appendix 2 - Treasury Management Strategy 2024-25

Background papers
None

Report Author and contact details
Alex Rycroft – Strategic Finance Business Partner – Technical and Transformation
01295 221541, Alex.Rycroft@cherwell-dc.gov.uk

Appendix 1 - Capital and Investment Strategy 2024-25

CAPITAL AND INVESTMENT STRATEGY

2024/2025

Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

CONTENTS

A. Capital Strategy

A1. Introduction

As part of its annual budgeting cycle, Cherwell District Council proposes a capital programme that sets out the capital expenditure that is expected to take place over the next 5 years. The programme is a series of projects undertaken by service departments for which there has been an identifiable business need.

Capital expenditure is money spent on acquiring and enhancing non-current assets that are used in the delivery of services and providing economic benefits to the council and its residents.

The Council has had, and continues to put forward, an ambitious programme that seeks to deliver on its key corporate priorities as detailed in the 2023-24 Business plan, namely:

- Healthy, resilient, and engaged communities
- An enterprising economy with strong and vibrant local centres
- Supporting environmental sustainability
- Housing that meets your needs
- Running the business - support service

To ensure that the council can deliver upon these priorities, a medium to long-term view is taken of planned capital expenditure to ensure that the programme is affordable, sustainable, and deliverable.

Owing to the nature of capital spend, there are financial and non-financial factors that need to be evaluated and monitored to ensure council stakeholders and decision makers are kept fully informed, in line with the CIPFA Prudential Code for Capital Finance.

The Prudential Code for Capital Finance sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by full Council.

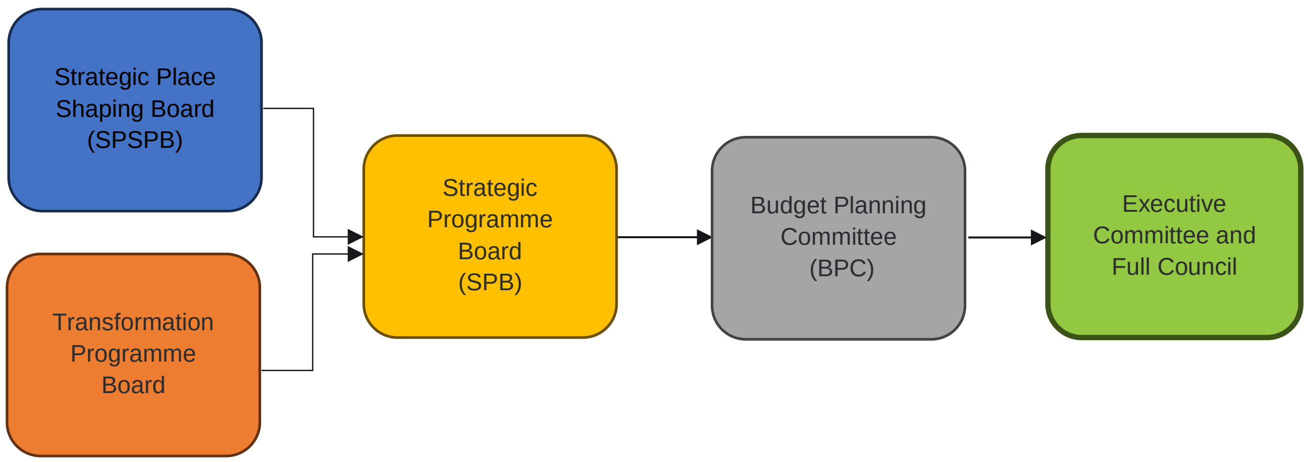
A2. Capital Planning and Project Approval

Starting in the Spring of each new budget cycle, service managers are tasked with conceptualising, proposing, and developing capital projects that are linked to corporate or service priorities as part of the Budget & Business Planning process.

The council operates a gateway process to ensure that projects have appropriate governance arrangements in place to identify and manage risk.

The Strategic Place Shaping, Transformation and Strategic Programme Boards provide oversight and scrutiny for the process, alongside the Strategic Programme Board and Budget Planning Committee. Project boards comprise officers from the director and assistant director level, as well as project managers, budget holders and finance officers. Approval of capital projects and the capital programme is made by Full Council. Capital projects may occasionally be approved outside of the annual budget cycle in line with the Council's Financial Regulations.

Diagram A2.1: Capital Project Oversight Boards



The capital gateway process has five stages:

Diagram A2.2: Capital Gateway Process

Gateway 0 - Business Need

Capital proposals first and foremost, must have a demonstrable business need. Officers must put forward rationale for why undertaking a project is necessary, including the corporate objectives it aligns with and a high-level budget outline, estimating both capital and revenue impact and any identified sources of capital funding. Bids are considered and discussed by the relevant boards and recommendations are made to the Strategic Programme Board (SPB) which takes a decision on progression of the scheme to gateway 1.

Gateway 1 - Business Case

Progression through gateway 1 requires the development of an outline business case and options for the scheme, ensuring that the council can deliver projects that offer value for money. The business case will include information that will assist board members in appraising the project. Within each option, an analysis of the benefits and drawbacks must be provided, alongside a summary of key risks, a project timeline and more detailed budget proposal. The business case must discuss carbon and climate impact, and any stakeholder engagement. Programme boards consider the business cases and provide feedback to officers, with recommendations made by the board for the project to be taken forward to gateway 2, reworked, paused, or postponed. At this point, finance officers conduct a review of the affordability of the project and prepare revenue budget figures for inclusion in the Medium-Term Financial Strategy (MTFS).

Gateway 2 - Business Decision

Recommendations made by the boards at gateway 1 are considered by SPB, both in terms of priority and affordability. Projects proposed to be included in the Council's capital programme are then considered and appraised by the Budget Planning Committee which provides comments to the Executive on the proposals. The Executive then, taking into consideration any comments, propose which schemes to include in the Capital Programme ahead of the final capital programme being presented to Council in February each year. Once approved by Council, budgets are uploaded to the financial system and project officers can commence work on the approved schemes.

Gateway 3 - Business Delivery

Approved projects are overseen by project managers that are responsible for delivering projects on time and within budget. This responsibility extends to risk management and escalation of issues to ensure that projects remain on track. All capital projects and programmes are reviewed monthly as part of routine budget monitoring, which provides an opportunity to review project costs against budget and escalate potential areas of concern with senior management. The outputs from routine budget monitoring processes feed into the Finance Capital reporting to the Executive, this reporting includes narrative which provides non-financial updates on capital projects.

Gateway 4 - Business Benefit Realisation

As part of project closure, officers are encouraged to reflect on the project undertaken and report back to project boards via a Benefit Realisation Report.

A3. Capital Expenditure

Regulations

Local Authorities operate under a capital prudential framework and under a statutory legal environment through the Local Government Act 2003.

Expenditure can only be capitalised (i.e., recorded as an asset on the Council's balance sheet) under these regulations, if the spend is incurred in:

- Acquiring, constructing, or enhancing physical or intangible assets, such as land, buildings, plant, vehicles, and equipment
- Acquiring share capital in a third party
- Advancing a loan to a third party that would be for capital purposes if incurred by the council
- Granting of funds to a third party which is to be used for a capital purpose
- Purchasing or enhancing assets from which the council does not have the legal right to economic or service benefits from but would otherwise be capital if the council had those rights (Revenue Expenditure Funded by Capital Under Statute).

As part of the capital gateway process outlined in section A2, projects are appraised on whether proposed expenditure falls into the above categories. Proposed expenditure that does not meet capitalisation regulations as determined by the Capital Accountant and/or S151 Officer, is then considered as a potential revenue pressure as part of the revenue budget setting process.

Expenditure on assets that are capital in nature and in the same class, but do not aggregately meet the council's capital de minimis threshold of £10,000, are also charged as a revenue expense.

Project officers are provided with guidance that outlines the requirement for expenditure being treated as capital. The below table demonstrates how the council typically treats expenditure that are related to capital projects:

Table A3.1: Accounting Treatment of Project Expenditure*

Expenditure Type	Accounting Treatment
Feasibility Studies	Revenue Expense
Options Appraisal	Revenue Expense - expenditure incurred on the option that is proceeded with *may* be capitalised e.g., if three options are appraised, 1/3 of the cost may be capitalised
Internal Staff Costs	Revenue unless a direct contribution is made to the progressing of the creation, acquisition, or enhancement of an asset e.g., a project manager. Officers are required to provide timesheets and other written documentation as justification for capitalising a staff member's cost for audit purposes.
Interest Costs on Prudential Borrowing	Revenue Expense
Design, Architect and Engineer Costs	Capital Expense
Contractors Costs	Capital Expense
Legal Fees	Capital Expense (except in relation to conveying the sale of an asset)

**This is not an exhaustive list of expenditure types*

It is therefore vital that project officers correctly classify spend for revenue and capital purposes to avoid unforeseen budget pressures. Aborted projects which no longer meet capitalisation requirements are subsequently charged to revenue.

Capital Programme

The council has a sizeable capital budget with committed spend of £40m across the programme. Projects already in the existing capital programme, prior to the inclusion of 2024/25 proposals, include:

- Transforming Bicester Market Square - £4m
- S106 Community Infrastructure Projects across the District - £2.8m
- Construction of a New Waste Services Depot - £3.9m
- Vehicle Replacement Programme - £5.7m
- Development of Castle Quay - £2.4m

All projects exist to further the council's delivery against its corporate objectives or to improve service delivery and council operations. A summary of planned capital spend in accordance with the corporate objectives is outlined in table A3.2 below:

Table A3.2: Capital Programme across Corporate Priorities in £m

Corporate Priority	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
Healthy, resilient, and engaged communities	0.3	1.7	6.2	0.0	0.0	0.0
An enterprising economy with strong and vibrant local centres	2.3	0.9	7.3	0.0	0.0	0.0
Supporting environmental sustainability	3.7	1.2	3.9	1.1	1.1	1.5
Housing that meets your needs	8.1	21.5	4.6	1.4	1.4	1.4
Running the business - support service	0.8	4.7	9.2	0.1	0.0	0.0
Total Capital Expenditure	**15.3**	**29.9**	**31.1**	**2.5**	**2.6**	**2.9**

As part of the 2024/25 budget setting process, Full Council is requested to approve additions to the capital programme to further progress against corporate objectives. These projects are mostly funded by capital grants and S106 receipts, keeping borrowing levels at to a minimum. Proposed projects include:

- £1.6m of S106 spend on development of a 3G pitch at North Oxfordshire Academy
- £0.7m of debt financed Carbon Net Zero Capital Projects (subject to business cases prior to spend)
- £0.6m of S106 spend on development of Activity Play Zones

The council also has projects in the pipeline which are being planned, but for which capital funding has not yet been fully identified or received.

This includes the development of a New Learner Pool at Bicester Leisure Centre (£5.2m) and the BMX Pump Track (£0.2m). It is expected that future S106 receipts will be received to fully fund these projects and enable progress to Gateway 2. These items are included in the capital programme but are not able to proceed until all funding has been identified for them.

A4. Capital Financing and Affordability

Financing the Capital Programme

Capital expenditure included in the capital programme is financed from various sources – these sources can either be external (from third party contributions such as grants and Section 106 contributions) or internal (making use of reserves and capital receipts). Borrowing may be used as a temporary source of finance – as such the council may borrow externally within the prudential framework to acquire and enhance assets, including finance lease arrangements. Alternatively, it can borrow internally, making use of cash balances it holds in advance of expenditure to temporarily finance its capital spend. Internal borrowing is usually the preferred route - where possible - as interest payable on external borrowing is typically higher than interest receivable on surplus cash balances. A reduction in interest receivable will therefore be outweighed by the cost avoidance benefit in not borrowing externally. More information on this can be found in the Council's Treasury Management Strategy.

Borrowing results in an increase to the Council's Capital Financing Requirement (CFR) which needs to be carefully managed. Table A4.1 shows the expected use of receipts and the effects on the council's need to utilise borrowing as a temporary source of finance:

Table A4.1: Sources of Capital Finance

Financing Source	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
Capital Expenditure	**15.3**	**29.9**	**31.1**	**2.5**	**2.6**	**2.9**
Capital Receipts	(7.9)	(15.0)	(0.4)	(5.3)	0.0	0.0
S106 Receipts	(1.1)	(0.7)	(5.1)	0.0	0.0	0.0
Capital Grants	(5.3)	(3.0)	(6.5)	(1.2)	(1.2)	(1.2)
Total Financing	**(14.3)**	**(18.7)**	**(12.0)**	**(6.5)**	**(1.2)**	**(1.2)**
Increase/(Decrease) in CFR*	**1.0**	**11.2**	**19.1**	**(4.0)**	**1.4**	**1.7**

**Figures may not cross-cast between tables due to rounding*

Capital receipts are a permanent source of finance i.e., it is funding the council controls and does not have to repay. Capital receipts typically arise from the disposal of a non-current asset. Examples of capital receipts include:

- Proceeds from the sale of land or a building
- Repayment of a capital loan from a borrowing entity
- Disposal of a financial interest in a capital asset, such as a re-sale covenant on a house

Once received, capital receipts can be used to finance new capital expenditure or applied to existing expenditure to reduce the council's need to borrow. Application of capital receipts to new or historical spend will be a decision taken by the S151 Officer. Capital loan receipts are applied to the unfinanced capital spend incurred in making the original loan advancement.

Capital grants are generally received for a specific expenditure purpose and are recognised as a council resource when reasonable assurance has been received that the council will meet any conditions attached to the use of the funds. Capital grants are used for financing in the financial year the spend is incurred, with unspent balances transferred to capital reserves which can be used to finance spend in future years.

To finance capital expenditure that has no permanent source of finance such as capital receipts or grants, and that has utilised borrowing as a temporary source of finance, revenue resource must be provided for over the lifetime of the underlying asset or enhancement made. This is known as the Minimum Revenue Provision (MRP) and is a statutory requirement for councils that have utilised prudential borrowing. MRP is provided for annually and acts to reduce the council's need to borrow money, i.e., its CFR. The MRP charge must demonstrate prudence and be made with due regard to statutory guidance published by central government. The Council's MRP statement can be found in Annex A to this document. The Council's MRP forecast is outlined in table A4.2.

Table A4.2: Minimum Revenue Provision Forecast

MRP (£m)	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Minimum Revenue Provision (MRP)	(4.9)	(3.7)	(5.5)	(4.7)	(4.9)	(5.0)

Capital Financing Requirement

The level of capital expenditure not yet permanently financed is measured through the Capital Financing Requirement (CFR). The CFR indicates the extent to which the council has needed to borrow (incur debt) and is calculated by taking the Council's total spend for capital purposes and deducting capital grants, receipts and revenue resource applied against the expenditure. Forecasting the CFR is a vital part of revenue budget management as it determines the level of prudent MRP.

Table A4.3: Capital Financing Requirement Actuals and Estimates

CFR (£m)	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
CFR	238.6	246.1	259.6	250.9	247.4	244.0

A5. Treasury Management and Prudential Borrowing

Prudential Borrowing

The council as a local authority can borrow for purposes that comply with the CIPFA Prudential Code for Capital Finance. As part of this capital strategy a series of indicators are provided to help demonstrate that borrowing is incurred in-line with the Prudential Code. Prudential indicators are provided in section A6 of this strategy.

Under the revised code, the council *cannot* borrow for commercial purposes i.e., make capital investments primarily for financial return. The council takes decisions on its capital programme with the fundamental principle that the capital project must deliver against corporate priorities as its primary objective. The council will therefore comply with this requirement.

Treasury Management

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

Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council typically has surplus cash in the short-term as revenue income is received before it is spent, but insufficient cash in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. At 31 December 2023 the Council had borrowings of £166m at an average interest rate of 2.18%, and £27m of investments at an average interest rate of 5.58%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management reports.

Borrowing Strategy

The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. To meet this objective the Council must review the current market conditions alongside the long-term forecasts from Link to determine how to structure borrowings. Short term loans, which usually have lower interest rates and offer excellent flexibility, are suitable for stable market conditions or when interest rates are forecast to fall. Medium to long term loans offer a certain cost of finance but are generally more expensive and inflexible. The Council must therefore seek to strike a balance between short and medium to long term loans, to meet its objectives, by anticipating both its borrowing need and the forecast interest rates.

A6. Prudential Indicators

Under the Prudential Code, the council is required to ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so the council must take into account arrangements for the repayment of debt (including through MRP) and consideration of risk, and the impact and potential impact on the council's overall fiscal sustainability.

A series of prudential indicators are set each year as part of the Capital Strategy to demonstrate that the council has due consideration of these factors when determining its capital programme.

A6.1 Debt and the CFR

The council can only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The council should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next two financial years.

Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see table A4.3)

Table A6.1: *Debt vs CFR (£m)*	2022/23 actual	2023/24 forecast	2024/25 forecast	2025/26 forecast	2026/27 forecast
Gross Borrowing (incl. PFI & leases)	188.0	181.0	180.0	180.0	175.0
Capital Financing Requirement	238.6	246.1	259.6	250.9	247.4

As per the table, the council expects that its gross borrowing will not exceed its CFR across the MTFS period.

A6.2 Borrowing Boundaries and Limits

The council is legally obliged to determine and keep under review an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit:

Table A6.2: *Operational Boundary vs Authorised Limit (£m)*	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Operational boundary	290.0	290.0	290.0	280.0
Authorised limit	310.0	310.0	310.0	300.0

There are no changes to the 2024/25 boundary and limit, indicating that the council is effectively managing its debt and cashflows.

A6.3 Financing Cost to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. Together these are referred to as financing costs and it is useful to compare this to the net revenue stream, i.e., the amount funded from Council Tax, business rates and general Government grants, to determine that capital financing costs are proportionate and affordable.

Table A6.3: *Financing Costs to Net Revenue Stream (£m)*	2022/23 Actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Interest Payable	3.6	4.0	4.5	4.8	5.0
Minimum Revenue Provision	4.9	3.7	5.5	4.7	4.9
Total Financing Costs	**8.4**	**7.7**	**10.0**	**9.5**	**9.9**
Net Revenue Stream	22.6	28.1	26.2	21.1	18.1
Total Funding	**22.6**	**28.1**	**26.2**	**21.1**	**18.1**
Proportion of Net Revenue Stream	**37.3%**	**27.4%**	**38.2%**	**45.3%**	**54.7%**

This indicator shows that the ratio of financing costs to net revenue streams is high, however it doesn't consider is that a large proportion of the council's financing costs are offset by the interest from on-lending to the Council's subsidiaries, and income generated by assets acquired as part of the Council's regeneration programme. **This "non-treasury investment" income is not included in the net revenue stream as it does not form part of the council's core funding but is nonetheless a key resource for the council.**

A6.4 Net Income from Service Investment Income to Net Revenue Stream
This Indicator shows the financial exposure of the Authority to the loss of its non-treasury investment income, i.e., income from financial investments (e.g., share and loan capital in council subsidiaries) and income from property assets:

Table A6.4: *Ratio of Service Investment Income to Net Revenue Stream (£m)*	2022/23 Actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Net Income from Financial Investments	4.9	5.1	4.5	4.5	4.5
Net Income from Property Assets	4.2	5.1	5.8	8.2	8.3
Total Service Investment Income	**9.1**	**10.2**	**10.3**	**12.8**	**12.8**
Net Revenue Stream	22.6	28.1	26.2	21.1	18.1
Total Funding	**22.6**	**28.1**	**26.2**	**21.1**	**18.1**
Ratio of Service Investment Income	**40.4%**	**36.3%**	**39.1%**	**60.6%**	**70.7%**

Investment income represents a significant proportion of the net revenue stream and therefore the risks around loss of this income should be monitored closely. The council conducts regular reviews of projected levels of income as part of monthly budget management and provides regular updates to senior management via performance and aged debt reporting. Risks associated with income loss can therefore be identified early and plans can be implemented to mitigate the impact so the council can continue to deliver a balanced budget.

Whilst financing costs are high, the overall picture is incomplete without factoring the contribution investment income makes towards these costs. Deducting the ratio of net income from Service Investments from the Ratio of Financing costs reveals the affordability ratio, which demonstrates the net revenue impact to the taxpayer as a result of the Council's capital investment decisions.

A6.5 Affordability Ratio
There is no established Local Authorities benchmark for this ratio as activities differ widely. Interest earned on Treasury investment is not considered in either of the calculations and therefore it is not unexpected to see a positive percentage when the two are netted off against each other.

The affordability ratio shows that after taking into account the income relating to the capital expenditure that is being financed the Council has an affordable net cost of capital financing:

Table A6.5: *Affordability Ratio*	2022/23 Actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Ratio of Financing costs	37%	27%	38%	45%	55%
Ratio of Service Investment income	40%	36%	39%	61%	71%
Affordability ratio	**-3%**	**-9%**	**-1%**	**-15%**	**-16%**

The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

With increases in interest rates in the past year, the Council will continue to monitor this ratio and report to senior management via its regular Treasury Management review. Should the affordability ratio move adversely, the council will need to review whether this is sustainable and what actions may be required to mitigate the impact to the taxpayer as part of its budget monitoring and Medium-Term Financial Strategy.

A7. Capital Health

To get an indication of the Council's overall capital health, it is useful to examine the ratio of the CFR to the Council's total long-term asset value to determine the extent to which the council's assets could clear its debt through asset disposals, if necessary.

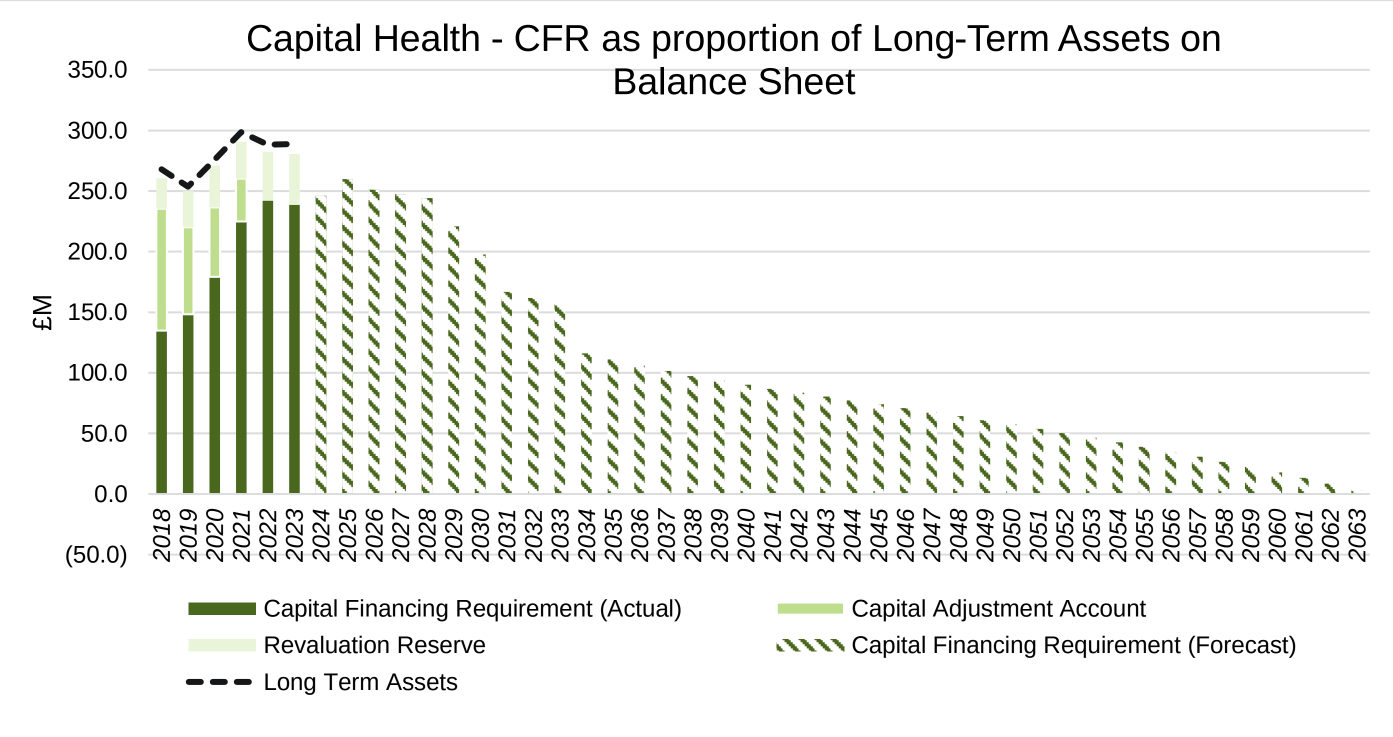
Table A7.1 – Capital Health in £ millions

Capital Health (£m)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Capital Financing Requirement	134.9	148.2	179.2	224.8	242.1	238.6
Long-Term Assets *(as per statement of accounts)*	267.8	253.6	275.8	298.6	288.2	288.8
CFR to Long-Term Asset Ratio	**50%**	**58%**	**65%**	**75%**	**84%**	**83%**

As of 31st March 2023, the Council's CFR amounted to 83 percent of the value of its total capital worth (Long-term asset value), demonstrating that the Council's total capital worth exceeds its borrowing requirement.

Figure A7.2 demonstrates how this has changed since the Council began borrowing to fund its capital programme and includes a forecast of the Council's CFR up to 2063 based on the current 5-year capital programme and no future additions to this.

Figure A7.2– Capital Health: CFR as proportion of Long-Term Assets



The Council's capital assets are comprised of fixed assets, such as property, and financial assets, such as loan and share capital. Fixed assets and long-term financial assets are less liquid than treasury management investments, as loans and share capital have contractual arrangements and agreed repayment profiles in place, whilst property is utilised in the delivery of corporate priorities. It is important that the council continues to monitor the repayment profiles of loans and valuation of its property assets to ensure that the council can cover its debt obligations through asset sales if required to do so (e.g. in the unlikely event that PWLB refinancing of loans becomes unavailable).

Based on current forecasts, the CFR is expected to reduce by 30% by 2031 and be cleared by 2064. This is mainly due to the effects of the annual minimum revenue provision set aside by the council and principal repayment of capital loans and share capital investments by the Council's subsidiary company Graven Hill.

The council continues to ensure that wherever possible, new capital projects are fully funded by capital grants, capital receipts or S106 receipts, keeping additional borrowing requirements to a minimum level and on projects whether there is a demonstrable business need or statutory duty.

A8. Asset Management and Commercial Risk

Asset Management

To ensure that capital assets continue to be of long-term use, the Council is in the process of preparing a revised Asset Review, where the purpose of each asset held, is challenged, and these properties will be underpinned by a series of policy documents which detail how each category of property is managed. This is a multi-level approach structured as follows:

- At a property level this will comprise of the preparation of an asset management plan which are then subject to periodic review and updating. This process is ongoing and informs the portfolio strategy as a whole.

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as expiries, rent reviews and breaks. These are allocated to specific Property Managers to progress whose work schedules are reviewed periodically.

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Receipts from capital grants, loan repayments and investments also generate capital receipts

Commercial Risk

To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and to generate income to support the revenue activity, the council holds commercial property assets that are subject to commercial risks. The council continues to make investments in enhancing and adapting these assets to ensure they remain fit for purpose and to maximise their service and economic potential in a what has been a turbulent financial environment for commercial property nationwide.

The council recognises that the investments made in commercial property are higher risk than treasury investments. The principal risk exposures are listed below together with an outline of how those risks are managed:

Table A8.1 – Commercial Risk Management

Illiquidity	The council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies: a) The council invests across a range of sectors and its assets are diversified in terms of lot size. b) Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors. c) The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

Tenant default	The council's portfolio includes both large national concerns and small local businesses (mainly retail or industrial type tenants). Tenant default risk is managed in two ways: a) Tenants are vetted when entering the portfolio either as new tenants when property is let or as replacement tenants when existing tenants assign their leases. It must be acknowledged that there is less control when a tenant applies for consent to assign, though guarantees may be sought. b) Risk is managed by diversification as only a small proportion of tenants will fail in any given year. c) A policy contingency budget is held within the Council's annual revenue budget alongside a market risk earmarked reserve which can meet a shortfall in income that may arise in year due to tenant defaults.
Obsolescence	A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and retail assets which have relatively low obsolescence compared to office premises. This is because offices in general require significant investment to maintain the landlords fit out specification in line with market demands. Where matters of council policy override commercial concerns, the Council's portfolio is more vulnerable. E.g., where significant outlay may be required on plant and machinery at the end of their useful economic lives. This will be considered in the Asset Management plan for each asset.
Capital expenditure	Please see above but also note that the council aims to let space on Full Repairing terms which makes the tenant either explicitly responsible for maintaining the asset or allows CDC to recover the cost of repairs through the service charge provisions of the relevant lease.
Market risk	Two key market risks are falling rents in response to declining economic conditions and extended marketing voids when leases end or tenants fail. These risks are mitigated in three main ways: 1. Lease lengths should be 3 – 5 years + which obviates most market risks during the period of the tenancy. 2. Longer leases which contain regular rent review provisions normally require the rents to be reviewed in an upwards only direction. 3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies plus earmarked reserves held. An additional risk is over-exposure to town centre retailing as the portfolio's largest assets are the Castle Quay Centre and Retail Complex in Banbury as well as Pioneer Square in Bicester. The risks arising from these investments will be managed as part of the Strategic Asset Management plan and Asset Actions Plans for each asset.
Returns eroded by inflation	Most properties are let on lease terms which contain upwards only rent reviews and some are indexed linked guaranteeing rental growth. Although in general rental levels lag against inflation (both when rising and falling due to reviews or renewals being generally every 3-5 years) rents are historically considered to be more stable with less fluctuations.
Rising interest rates	Interest rate risks are managed by the Council's Treasury Management function which is supported by professional advisers. The council publishes its approach to interest rate management in its quarterly Treasury Management Report and annual Treasury Management Strategy which should be read in conjunction with this strategy.

Commercial Governance

Decisions on investment in assets with commercial risk are made by Members and Statutory Officers in line with the criteria and limits approved by Council in the Investment Strategy. Acquisitions of property are made in-line with strategic priorities of the council, are capital in nature and will therefore form part of the council's capital programme.

The Council also has commercial activities in trading companies, exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder representative meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

Further details on commercial investments and limits on their use can be found in the Investment Strategy (Section B of this report).

A9. Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years of experience and several other members of the Finance team are CIPFA members and fully qualified accountants. Senior members of the Property team are registered surveyors with the Royal Institute of Chartered Surveyors (RICS). The council also pays for junior staff to study towards relevant professional qualifications, including CIPFA, to support professional development and team resilience.

Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field.

B. Investment strategy

B1. Introduction

The CIPFA Prudential Code for Capital Finance outlines that in the Investment Strategy presented to Full Council each year, it should report on all financial investments of the authority, together with other non-financial investments such as those held for service purposes or for financial return.

Local authority investments (including commercial property) may be categorised in accordance
With the primary purpose of the investment. The chief financial officer makes a judgement as to the primary purpose of the investment. For the purposes of this strategy, all investments and investment income must be attributed to the following purposes as per the prudential code:

- 'Investments for **treasury management** purposes' (or treasury management investments) are those investments that arise from the organisation's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- 'Investments for **service** purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

- 'Investments for **commercial** purposes' (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

In line with the above definitions, the council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

- to support local public services by lending to or buying shares in other organisations, such as subsidiaries and local community groups (**service investments**) and

- to deliver against corporate priorities as detailed in the council's annual business plan (**service investments**)

The council does not invest *primarily* for financial return (commercial purposes) – for the council to do so, it is likely the council would need to incur borrowing. The prudential code does not permit borrowing for commercial purposes.

The council realises the benefits of its investments either through direct delivery towards corporate priorities, or by generating additional income that supports service delivery and the revenue budget.

The below table summarises how each type of investment benefits the council and its residents:

Table B1.1: Investment types and Benefits

Investment	Purpose	Examples	Strategic and Service Benefits	Economic Benefits

Treasury Investments	To manage surplus cash balances held in advance of expenditure	Money Market Funds, DMADF, other Local Authorities & fixed deposits with banks	Effective treasury management – i.e. deposit cash in facilities that are secure, liquid and generate a financial return	Interest received can be used to support day-to-day revenue spend the council incurs in delivering its services.
Service Investment: *Purchasing of Share Capital*	To enable subsidiary companies such as Graven Hill to deliver service objectives and be commercially viable enterprises	Graven Hill, Crown House	The subsidiary is provided financial resource to deliver housing for the district	Investing in subsidiaries can help deliver service objectives that impact the local economy and help to stimulate economic growth e.g., in providing housing, attracting businesses, encouraging private investment in the district. The council may receive a dividend payment from the profits generated that can support revenue spend.
Service Investment: *Advancing of Capital Loans*	Loans are advanced to organisations such as its subsidiaries, local parishes and local charities to support local public services and stimulate local economic growth	Graven Hill, Crown House, Local Charities and other organisations	To enable continual delivery of housing and infrastructure to the local community. To enable local groups to deliver objectives and priorities which align with the Council's.	Advancing loans can enable local organisations to facilitate economic growth. The council receives interest on the loan advances. Loans are repaid to the council on maturity.
Service Investments: *Property*	To help the council to deliver services, meet its corporate priorities and generate income to support its revenue activity	Bicester Depot, Castle Quay, Tramway Industrial Estate	A direct impact is made on the district through strategic place shaping, regeneration, and other forms of service delivery	Property investments support public services and help to attract for local and national businesses, driving economic prosperity. The council can generate income from lettings of space that it does not occupy, e.g., retail, and industrial space.

B2. Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be an average of £14m during the 2024/25 financial year.

Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy.

B3. Service Investments: Loans

Contribution
The Council lends money to third parties (e.g., its subsidiaries, local parishes, local charities) to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd. Graven Hill is a housing development providing significant housing in Bicester. Crown House is a redeveloped derelict office building in the centre of Banbury which is providing significant rental opportunities in the town centre.

Security
The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table B3.1: Fair Value of Loans

Category of borrower (£m)	31st March 2023 actual			
	Balance	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	71.2	1.3	69.9	71.2
Parishes	0.1	0.0	0.1	0.1
Local charities	0.1	0.0	0.1	0.1
Other	1.3	0.1	1.2	1.3
TOTAL	**72.7**	**1.4**	**71.3**	**72.7**

Accounting standards (IFRS 9) require the council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. The council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk Assessment
The Council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.

Other service loans are evaluated against a set of criteria designed to demonstrate:

- Evidence of project objectives and needs analysis is provided
- The loan must have a demonstrable community impact
- The loan would provide up to 50% of the whole project cost

- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations

- The loan cannot be applied retrospectively

- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme.

- Appropriate checks have been carried out on the owners of the organisations to be satisfied as to their integrity and to avoid any potential embarrassment to the Council.

- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement, and financial appraisal.

- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments

- That the project furthers the council's priorities as reflected in its Business Plan

B4. Service Investments: Share Capital

The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd, Graven Hill Development Company Ltd and Crown House Banbury Ltd.

One of the risks of investing in shares is that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table B4.1: Fair Value of Share Capital Investments

Category of company	31st March 2023 actual			
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	35.7	0.0	35.7	35.7
TOTAL	**35.7**	**0.0**	**35.7**	**35.7**

The Council assesses the risk of loss before entering into entering and whilst holding shares by maintaining close links with the Boards of Directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

The maximum periods for which funds may prudently be committed are assessed on a project-by-project basis. The decision will balance both the long-term viability of the subsidiary and the revenue and capital requirements of the Council.

Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

B5. Service Investments: Property

The council invests in local property in two ways: by acquiring new assets and by enhancing existing assets to help provide and meet the needs of its residents and businesses. For example, the council has recently acquired land to relocate and expand its Waste Collection Depot in Bicester to accommodate growth across the district. The Capital Programme includes significant investment over the next five years, which includes:

- Development of the new Bicester Depot
- Transforming Bicester Market Square
- Investing in Solar Panels and Solar Photovoltaic car ports at the Council's leisure and community centres
- Acquiring and making capital improvements to Town Centre House to return the building to use, to help rehouse Ukrainian Refugees, and to provide safe, secure and affordable housing
- Commitment of funding to net zero carbon projects

The Council also continues to hold strategic assets that have received significant investment in recent years to regenerate town centres and generate income for the council, the largest of which include,

- Castle Quay Centre and Waterfront, Banbury;
- Pioneer Square, Bicester;
- Tramway Industrial Estate; Banbury.

Security

Under the statutory guidance on investments published by Central Government, the council should evaluate the security of its investments by conducting a fair value assessment against the capital invested. A fair value assessment is possible for assets held at fair value, I.e. properties valued annually as investment property (IAS 40 as adapted by the CIPFA code) or operational assets valued under Existing Use Value (EUV) where there is an active market for these types of assets.

In 2023, the council undertook a review of properties held under IAS 40 and determined that most of the assets classified as investment property up to 2021/22 were done so incorrectly. The CIPFA code defines Investment Properties as assets held *solely* for financial return, either through rental income or capital appreciation.

Assets like Castle Quay, Tramway and Pioneer Square that were originally classed as investment properties, were investments made for the purpose of meeting the strategic regeneration objectives of the council, and *not* solely for financial return. Regeneration is, and has been, a key service objective for the council and whilst the assets are partly commercial in their day-to-day use as retail, leisure and industrial operations by tenants and generate rental income, the council continues to hold the assets as part of its wider regeneration strategy.

The council has therefore reclassified these assets as Property, Plant and Equipment (operational assets) and made prior year adjustments to its accounts to correct erroneous classification made in prior years' financial statements.

Under the CIPFA code, operational assets are valued under the Existing Use Value approach. Existing Use valuations are conducted on assets that have service benefits, such as in provision of housing or in the delivery of regeneration objectives. Existing Use (EUV) valuations may in some circumstances be lower than Market Value due to EUV disregarding potential alternative uses of the asset, known as 'hope value'. An assessment of the security of these assets is therefore made against valuations in Existing Use where Market Value is unavailable. Table B5.1 shows the latest fair value assessments of the council's high value strategic investments made in recent years:

Table B5.1: Fair Value of High Value Investments in the Council's Strategic Assets

Asset Name	Investment Cost (£m)	Fair Value 31/03/2022 (£m)	Movement in Fair Value (£m)	Fair Value 31/03/2023 (£m)	Gains/(Losses) in Book Value Recognised in Accounts (£m)
Castle Quay Waterfront, Hotel and Supermarket	68.3	32.0	(2.6)	29.4	(38.9)
Castle Quay Centre	64.7	15.4	(1.6)	13.8	(50.9)
Tramway Industrial Estate	9.6	10.7	(1.6)	9.1	(0.5)
Pioneer Square	8.2	4.1	0.3	4.4	(3.8)
Totals	**150.8**	**62.2**	**(5.5)**	**56.7**	**(94.1)**

The decline in book values have been driven by multiple factors, namely:

- The decline of high street retail, accelerated by the Covid-19 pandemic
- Performance of retail assets nationally, affecting property yields and therefore asset valuations
- National economic conditions, such as interest rates and inflation

Book gains and losses are recognised in the Council's statutory accounts to reflect fluctuations in asset values and represent a snapshot of the Council's financial position as at a balance sheet date. Cash movements against the original capital investment are therefore not realised until an asset is disposed of.

The council recognises that property valuations are important. The book value losses recognised to date, whilst significant, are temporary and are expected to improve in the medium to long-term which will ensure the authority remains in a healthy long-term financial position. The investment benefits will continue be realised through non-financial factors such as regeneration and place shaping and through revenue receipts which will help finance the capital investment.

Whilst strategically important, property valuations do not have a direct impact on the council's day-to-day financial standing. The council has prudently budgeted for the debt servicing costs on these investments and continues to receive income from the assets to support the financing of the investments. Many of the assets are long-term for the council, with current and future service benefits that also need to be taken into consideration in evaluation of the investment. As detailed in section A6 of the capital strategy, the council deems its capital investment plans to be affordable, prudent, and sustainable.

To improve the economic and service potential of its property investments and ensure they remain fit for purpose, the council intends to undertake a strategic review of its property within the next 12 months. A strategic review on one of the Council's largest assets, the Castle Quay Centre, is already underway. As part of this review, the council has already assessed the viability of moving council offices to the centre, for which a business case has been approved. Further work is now being undertaken to progress the project.

Once the move to Castle Quay completes, a capital receipt may be generated from the sale of the current council headquarters, Bodicote House.

It should be noted that the security of investment is not only considered through annual fair value assessment. Asset valuations fluctuate in accordance with the market, which has been on a downward trend in recent years. Assets that generate income to the council contribute to the overall business case and therefore whilst capital values may fluctuate, income generated from property assets may be considered secure in accordance with the lease terms granted, tenant performance, and asset obsolescence.

Risk assessment

The council assesses the risk of loss before entering and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

The property investment market is dynamic, and the council is kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The Council's focus is on assets that are local and help to deliver the strategic aims of the council.

In all acquisitions the council takes external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience, and expertise. The advice sourced covers market value but also, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

The council uses a number of local and national advisors and cross reference their views periodically. There is no single party who expects to be instructed by the council without competition.

Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The council uses D&B ratings as well as reviewing the published accounts of tenants or potential tenants.

A number of other strategies are used to mitigate risk:

- Tenant rent payment histories are analysed on any acquisition.
- Tenant rent payment patterns and arrears are examined in the existing portfolio.
- Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks to the investment.
- In tandem with the above every acquisition is subject to a third-party RICS Red Book valuation by qualified surveyors who are independent i.e., not acting for the council or the vendor on the acquisition.

Liquidity

Compared with other investment types, property is relatively difficult to sell to convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:

- The council invests across a diverse range of sectors and lot sizes. This affords the council the ability to access a range of purchaser types e.g., small local investors, listed property companies or institutions.
- The council does not invest in high-risk assets which can be the most illiquid of all other than for the purposes of delivering regeneration which has a different investment objective from pure revenue or capital return.
- Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors
- The council does not invest in specialist properties, where the market tends to be most illiquid.
- The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

B6. Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan, bond, and guarantee amounts:

Table B5: Loan Commitments, Bonds and Guarantees

Borrower	Purpose	£m Contractually Available
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	£17.0m
Graven Hill Village Development Company Ltd	Bonds and Guarantees in place	£22.4m
Graven Hill Village Development Company Ltd	Bond and Guarantees agreed in principle	£14.4m
TOTAL		**£53.8m**

B7. Capacity, Skills and Culture

Elected members and statutory officers

The majority of senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public and private sectors.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

Investments
Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff.

Corporate governance
There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers' approvals, and relevant project boards.

B8. Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure resulting from its investment decisions.

Total risk exposure
The first indicator shows the council's total exposure to losses in investment book value (i.e. losses not already recognised on balance sheet) which includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third-party loans and the council's high value property assets. These risks are managed by the council operating within the Treasury Management, Capital and Investment Strategies and strict governance arrangements around the council subsidiary Companies.

Table B8.1: Total investment exposure in £ millions

Total investment exposure	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Treasury management investments*	43.5	13.3	14
Service investments: Loans*	63.4	57.4	57.4
Service investments: Shares	35.7	35.7	35.7
Service investments: Property***	56.7	65.9	80.3
TOTAL INVESTMENTS	**199.3**	**172.3**	**187.4**
Commitments to lend	11.0	17.0	17.0
Bonds & Guarantees in place and agreed in principle	45.4	17.9	11.8
TOTAL INVESTMENT EXPOSURE	**255.7**	**207.2**	**216.2**

**The investment forecast for 2024/25 is as per the MTFS budget and includes a forecast loan necessary for the Council to maintain its professional client status with its providers of financial services. This figure will differ from table 1.3 in the Treasury Management Strategy, as that only takes loans already committed to, into account.*
***Loans as per the investment funded by borrowing (excluding interest income) as per Table B8.2*
****As per the net book value in Table B5.1 for 2022/23 on high value property investments*

How investments are funded
Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate specific assets with specific liabilities, this guidance is difficult to comply with. However, the following investments could be described as funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table B8.2: Investments funded by borrowing in £ millions

Investments funded by borrowing	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Service investments: Loans	63.4	57.4	57.4
Service investments: Shares	35.6	35.7	35.7
Service investments: Property	156.3	163.7	178.8
Total Funded by Borrowing*	**255.3**	**256.8**	**271.9**

**The total funded by borrowing represents the gross expenditure incurred on these types of investments which form part of the Council's CFR. MRP (see Annex A) made to date on these investments has not been included in this total.*

Rate of return received
This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred

Table B8.3: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.1%	5.1%	4.9%
Service investments: Loans	6.3%	6.9%	6.0%
Service investments: Property	1.0%	0.9%	0.9%

The rate of return on property assets represents the return across property service investments in housing, car parks, property bought with regeneration objectives and other property. The rate is lower than the return on loans and treasury investments as the council has invested in properties to meet corporate priorities in which financial return is not the primary objective. The council has invested in local housing projects which generate income at a below market rate, e.g., Affordable Housing, for which the gross capital costs (i.e. not including capital grants and receipts received to finance the spend) on the construction and development have been included in this calculation.

Annex A – Annual Minimum Revenue Provision (MRP) Statement

MRP Summary

Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is how capital expenditure which has been funded by borrowing is paid for by council taxpayers. Legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

The statutory guidance [1] on MRP outlines 4 ready-made options for calculating prudent provision:

- Option 1 – Regulatory Method
- Option 2 – CFR Method
- Option 3 – Asset Life method a and b
  - Option 3a –*Straight Line*
  - Option 3b –*Annuity*
- Option 4 – Depreciation Method

Options 1 and 2 can only be used for capital expenditure incurred prior to 1 April 2008 (supported capital expenditure). These options are therefore unavailable to the council as it has no supported capital balances within its Capital Financing Requirement (CFR).

MRP Statement

The Council is recommended to approve the following statement:

- For unsupported capital expenditure incurred on fixed assets after 31st March 2008 and not acquired under a finance leasing arrangement, MRP will be determined using **option 3b (Annuity method)** of the statutory guidance on MRP starting in the *year after* the asset becomes operational.

- MRP on the acquisition of share capital in a subsidiary company will also be calculated using **option 3b** of the statutory guidance.

- For capital expenditure incurred in the advancing of loans to third parties that are delivering service objectives on behalf of the Council, such as subsidiary companies, MRP will be charged at an amount equal to any expected credit losses on the loans recognised in the financial year in accordance with IFRS 9. For service loans with historical credit losses incurred in prior financial years, the council will make a one-off MRP charge in the current financial year to ensure prudent provision is made for the IFRS 9 accounting losses.

- Repayments of loan principal on capital loans will be treated as capital receipts and applied to the capital adjustment account to clear any unfinanced capital spend and reduce the council's capital financing requirement.

- Capital expenditure incurred on acquiring assets under finance leases will have an MRP charge made equal to the capital rent payment made to reduce the lease liability in year.

- Capital expenditure incurred in 2024/25 will not be subject to an MRP charge until 2025/26 at the earliest.

For **option 3b,** under statutory guidance:

- "*MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements, using an appropriate rate of interest."* In simpler terms, this is equivalent to the MRP charge matching the capital repayment profile of a mortgage or a finance lease arrangement, with payments taking place over the life of the asset and using an appropriate rate of interest to determine the annual amount.

- Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g., by the application of capital receipts) will be made as necessary.

As external debt balances cannot be directly linked to specific capital expenditure (external debt is a Treasury Management function) the Council has determined an *appropriate* interest rate to be the Public Works Loans Board (PWLB) rate available for an annuity-based loan, with a repayment lifetime that matches the estimated useful life of the underlying asset. The PWLB rate used is taken from on the PWLB website [2] and will be the rate available on the first working day of the financial year in which the expenditure is incurred.

Indicative annuity rates used in the Council's MRP calculation are shown below which are then further reduced by 0.2% for use in the MRP calculation, in accordance with the borrowing discount available to Local Authorities:

PWLB Borrowing Rates		Loan Term/Asset Life				
Publication Date/Time	***Year***	***10***	***20***	***30***	***40***	***50***
03/04/2023 09:15:48	2023/24	4.49%	4.60%	4.86%	4.89%	4.82%
01/04/2022 12:19:13	2022/23	2.50%	2.69%	2.85%	2.86%	2.80%
01/04/2021 09:08:50	2021/22	1.43%	1.97%	2.28%	2.41%	2.42%
01/04/2020 12:28:08	2020/21	2.13%	2.32%	2.60%	2.76%	2.77%
01/04/2019 12:13:33	2019/20	1.74%	2.09%	2.44%	2.60%	2.59%
03/04/2018 12:15:35	2018/19	2.07%	2.46%	2.67%	2.75%	2.72%
03/04/2017 12:15:31	2017/18	1.49%	2.18%	2.62%	2.80%	2.78%
01/04/2016 12:15:18	2016/17	1.86%	2.59%	3.08%	3.31%	3.32%
01/04/2015 12:15:49	2015/16	2.13%	2.72%	3.08%	3.29%	3.34%
01/04/2014 12:15:51	2014/15	2.96%	3.95%	4.34%	4.47%	4.50%

Change of MRP Approach

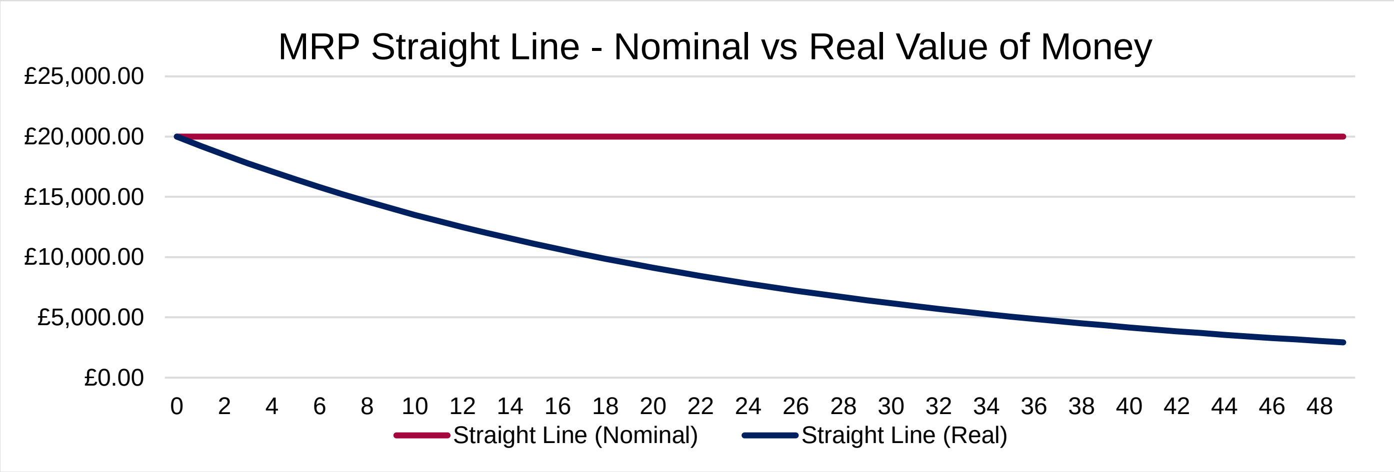
Adopting **option 3b** for fixed asset and share capital expenditure represents a change of approach for the council, having previously adopted a straight-line MRP approach in prior years (option 3a). Under the statutory guidance, where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision.

The change to annuity based MRP improves the council's ability to make prudent provision as it helps to distribute MRP more fairly when factoring that the value of money decreases with time due to its earning potential. The current adoption of a straight-line approach means that the real value that future revenue budgets are expected to provide for MRP can be significantly less than the current budget, whilst the assets are delivering the same benefits. The divergence in the real vs nominal value of money therefore creates a divergence in the suitability of a straight-line vs annuity-based approach to MRP, particularly over the medium to long-term. With interest rates and inflation presently much higher than when the Council began to generate a CFR (incurring capital spend without capital receipts available to finance the spend), this factor is becoming more prevalent and therefore should be considered in making prudent provision.

Much of the capital the council has outlaid which has increased its CFR has been in the purchase and enhancement of long-term assets that will have an expected lifetime of 50 years or more for the district. These assets include Castle Quay Shopping Centre, Castle Quay Waterfront development and investments in subsidiary companies, such as Graven Hill, that are set to provide long-term economic and innovative housing benefits. Factoring the time value of money into the MRP calculation helps to distribute the cost more fairly to the revenue budget over the lifetimes of the underlying assets resulting from the investments. This ensures that the current revenue budget is not unfairly burdened with costs associated with assets delivering long-term strategic objectives of the council or where economic benefits are expected to be maintained or increase over the life of the assets, benefitting the future as well as the current taxpayer.

For example, if the council spends £1m on purchasing a building with a 50-year useful life, under the straight-line approach, the council will charge £20,000 annually in MRP. However, where interest rates are expected to remain around 4% on average over that period (as an illustration), the real value of the MRP decreases across the life of the asset, meaning that future revenue budgets pay proportionally less in MRP compared to the current budget. This is depicted in the figure below:

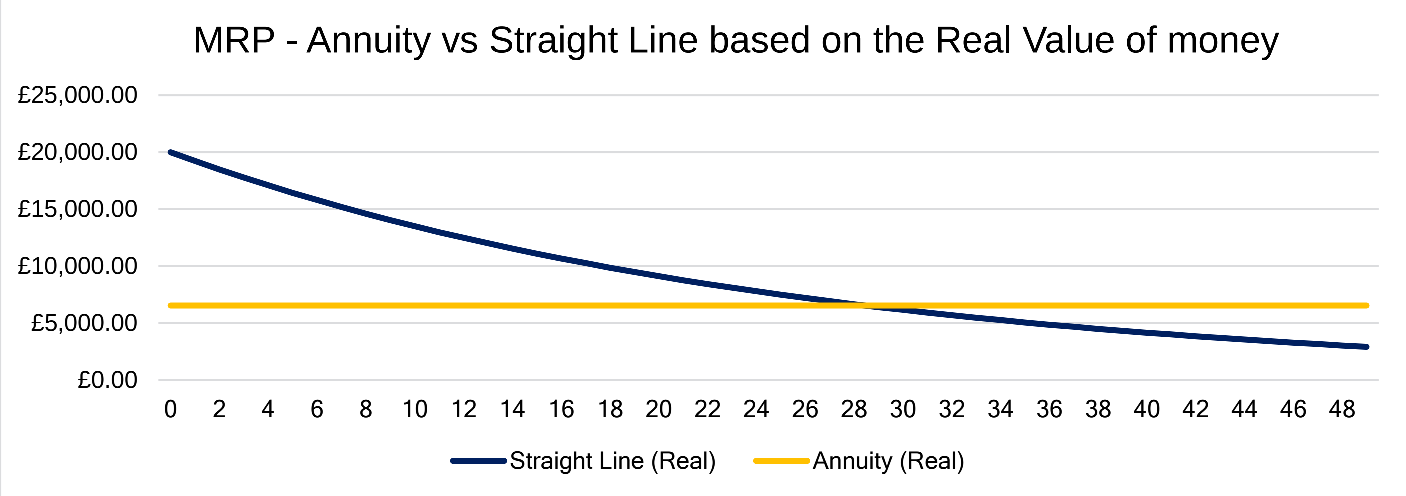
Figure M1: MRP Straight Line comparison between the real and nominal value of money



The time value of money means that an MRP charge of £20,000 in fifty years would be around £3,000 in today's terms. The annuity method seeks to combat this effect by ensuring an even spread of MRP with the time value of money factored in. Whilst the nominal value increases with time, the real value of the MRP will remain proportionate to the value of money at the time the charge is made, essentially making the MRP charge constant in real terms.

Below is a profile of MRP on an annuity basis for the same scenario, demonstrating that using the annuity method factoring the time value of money, results in a straight-line MRP charge in real terms:

Figure M2: Annuity vs Straight Line MRP based on the real value of money



Conclusions

By adopting an annuity based MRP approach for fixed asset and share capital expenditure service benefits, the council will:

- Factor in the time value of money into its MRP calculation;
- More fairly distribute MRP across the underlying lifetime of the assets invested in, and;
- Better allow a prudent MRP charge to revenue to be made.

Future MRP Considerations

The council recognises that the interest rates and inflation determine the time value of money and are likely to fluctuate over the lifetime of MRP for long-term assets. As such, the council will review the suitability of the annuity based method annually to ensure it remains appropriate. If interest rates decrease significantly, the current annuity model may no longer be the most appropriate methodology.

[1] – Statutory Guidance on Minimum Revenue Provision
https://assets.publishing.service.gov.uk/media/5a7451d9ed915d0e8bf188f4/Statutory_guidance_on_minimum_revenue_provision.pdf

[2] – PWLB Lending Facility Rates
https://www.dmo.gov.uk/responsibilities/local-authority-lending/historical-interest-rates/

This page is intentionally left blank

Treasury Management Strategy Statement 2024/2025

Index

1. Introduction

The council is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

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

Treasury management
Arising from the council's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

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

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

Investments held for service or commercial purposes are considered in the Capital and Investment Strategy and should be read in conjunction with this strategy.

1.1 Implementations required due to the revised Treasury Management Code

1.1.1 CIPFA published the revised Treasury Management Code and Prudential Code on 20th December 2021. The revised Treasury Management Code requires the council to have implemented the following:

a.) **Reporting requirements** include quarterly reporting to the Accounts, Audit and Risk Committee (AARC) with the Annual Performance Report (usually published in May) and Mid- year Review (usually published in November) also being presented to full council.

b.) Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council.

c.) **Environmental, social and governance (ESG).** The council's strategy is to have regard to the Environmental, Social and Governance ("ESG") risks presented by its Counterparties. The Treasury function will favour any counterparty that offers 'green' investments as long as all investment criteria as laid out in this strategy are met.

It is important to note that excluding any one counterparty, on social norms or standards, will likely mean others will similarly have to be avoided and thus impact the council's capacity to mitigate risk through diversification.

1.1.2 The council employs Link Treasury Services Limited as its external treasury management advisor. However, responsibility for treasury management decisions remains with the council at all times. The latest economic background, credit outlook and interest rate forecast provided by Link is attached at the end of this report.

1.2 Treasury Management Portfolio

1.2.1 The overall treasury management portfolio as at 31.3.23 and for the forecast position as at 31.03.24 are shown below for both borrowing and investments.

Table 1: Overall treasury management portfolio

TREASURY PORTFOLIO				
	actual 31.3.23	actual 31.3.23	forecast 31.3.24	forecast 31.3.24
Treasury investments	£000	%	£000	%
Banks	12,000	28%	0	0%
Building societies - unrated	0	0%	0	0%
Building societies - rated	0	0%	0	0%
Local authorities	23,000	53%	3,000	23%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	8,520	20%	10,300	77%
Certificates of Deposit	0	0%	0	0%
Total managed in house	**43,520**	**100%**	**13,300**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**43,520**	**100%**	**13,300**	**100%**
Treasury external borrowing				
Local Authorities	22,000	12%	15,000	8%
PWLB	166,000	88%	166,000	92%
LOBOs	0	0%	0	0%
Total external borrowing	**188,000**	**100%**	**181,000**	**100%**
Net treasury investments / (borrowing)	**(144,480)**	**0**	**(167,700)**	**0**

1.3 Balance sheet summary and forecast

1.3.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.3.2 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the council expects to comply with this recommendation.

Table 2: Balance sheet summary and forecast

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
General Fund CFR	238.60	246.10	259.60	250.90	247.40
Less: External borrowing **	188.00	181.00	145.00	139.00	133.00
Less: Service Loans and lease liability	1.56	0.00	0.00	0.00	0.00
Internal/(over) borrowing	**49.04**	**65.10**	**114.60**	**111.90**	**114.40**
Usable reserves	33.02	41.56	36.75	37.41	38.58
Working capital	38.40	36.84	36.84	36.84	36.84
Usable reserves and working capital less internal borrowing equals **Investments or (New borrowing required)**	**22.38**	**13.30**	**(41.01)**	**(37.65)**	**(38.98)**

*** shows only loans to which the council is currently committed. Therefore 'New Borrowing' includes some refinancing of existing debt. In 24/25 loans to the value of £36m are maturing.*

1.4 <u>Liability Benchmark</u>

1.4.1 The council is pleased to include the Liability Benchmark (LB) as a prudential indicator for 2023/24 in this report. The council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

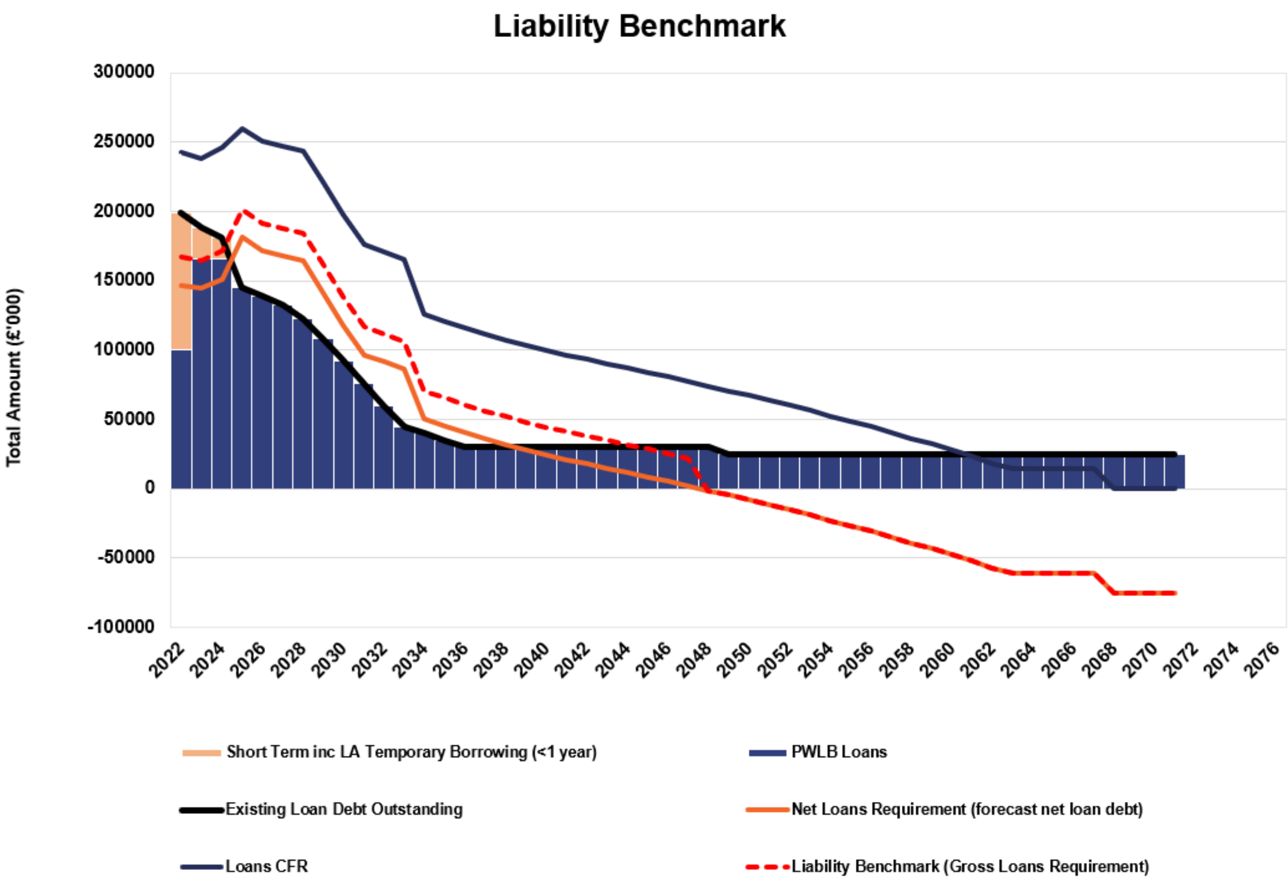
1.4.2 There are four components to the LB:

a.) **Existing loan debt outstanding**: the council's existing loans that are still outstanding in future years.
b.) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP.)
c.) **Net loans requirement**: this will show the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future

and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d.) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 3: Liability Benchmark



1.4.3 This graph is based only on approved activities in the current and proposed capital programme and it therefore assumes there are no future capital investments. This graph is not a forecast but a snapshot of the council's current commitments and loans. The difference between net loan requirement and loans CFR is made up of internal borrowing.

1.4.4 The LB graph above demonstrates that the council is in an under borrowed position until 2044. Using the current data available the CFR may be nil by 2068 and the estimated internal borrowing currently used to finance the CFR can be invested as the CFR reduces.

1.5 <u>General Balances & Reserves and Expected Investment Balances</u>

1.5.1 Internal borrowing is possible because of the council's General Balances and reserves as laid out in the table below. These funds can be used to finance capital expenditure or other budget decisions to support the revenue budget, but it is important that there is enough liquidity to ensure that should the funds be called upon that the council would not be forced to borrow in an unfavourable position.

1.5.2 The other component within this table is working Capital which is made up of a combination of debtors, creditors, long term liabilities and non-capital deferred credits / receipts.

1.5.3 Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: General Balances & Reserves and Expected Investment Balances

Year End Resources £m	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Collection Fund Adjustment Account	**(5.31)**	**(0.38)**	0.00	0.00	0.00
General Balances	6.15	6.15	6.15	6.15	6.15
Earmarked Reserves	20.62	26.71	25.67	26.33	27.51
Revenue Grants	3.51	2.03	1.13	1.13	1.12
Capital Reserves	8.05	7.05	3.80	3.80	3.80
Usable reserves	**33.02**	**41.56**	**36.75**	**37.41**	**38.58**
Working capital*	38.40	36.84	36.84	36.84	36.84
Internal/(over) borrowing	49.04	65.10	114.60	111.90	114.40
Usable reserves and working capital less internal borrowing equals **Expected investments / (borrowing)**	**22.38**	**13.30**	**(41.01)**	**(37.65)**	**(38.98)**

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

1.6 Treasury Management Indicators

The council measures and manages its exposures to treasury management risks using the following indicators.

1.6.1 **Interest rate exposures for both borrowing and investing**: This indicator is set to control the council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or a 0.75% fall in interest rates will be:

Table 5: Interest rate exposures for both borrowing and investing in 24/25

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates*	± £ 10,000 per £m
Upper limit on one-year revenue impact of a 0.75% fall in interest rates**	- £ 105,000 +£ 75,000

**This year there is very little interest rate risk as maturing loans have already been refinanced. The interest rate exposure risk would only be applicable to new loans made for Capital purposes beyond the proposed capital programme. The revenue impact per £m would be a cost for new loans while it could also be an increase in revenue for investments.*

*** The loss of revenue has been calculated based on a 0.75% decrease in the interest rate for the investment forecast for 2024/25 in the budget. There is also an opportunity to save on borrowing should the interest rate fall. As most of the council's borrowing is already fixed this would only impact on new loans in the 2024/25 budget.*

1.6.2 **Maturity structure of borrowing**: The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. The practice of setting a 'maturity structure of borrowing' aims to profile the maturity dates of borrowing so that loans don't all mature at once as this exposes the council to refinancing risk. As an example, if all of the council's loans had matured in the last 6 months, the council would have been forced to refinance at the highest rates the market had seen in years. Instead, the council's loan maturity dates are spread out. Even if rates are still high when the council needs to refinance some of the first loans in the portfolio to mature, at least the council is only exposed to the higher interest rates on those loans, and not all loans. The upper and lower limits on the maturity structure of borrowing will be as per Table 6 below:

Table 6: Maturity structure of borrowing limits in 24/25

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	80%	0%

1.6.3 The upper limit should always be reviewed in line with the Liability benchmark to ensure that refinancing risk is mitigated. While it is important to have flexibility to navigate changing market conditions is it critical that loan repayments and spread appropriately. The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation. The council feels that having no set lower limit gives officers the best flexibility to react to the economic climate. For example, if a lower limit for 10-year borrowing was set it may force the council to take out loans of that term when rates are high, rather than the council's preferred strategy of borrowing for shorter periods (still spread out) until rates begin to settle at the level the council's advisors believe will be the new "normal".

1.6.4 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits as shown above provide the scope to accommodate new loan(s) in the most appropriate maturity band at the time of borrowing.

1.6.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The council is asked to approve the following treasury indicator and limit:

Table 7: Long term borrowing limits

	2023/24	2024/25	2025/26
Upper limit for principal sums invested for longer than 365 days	£5m	£5m	£5m
Current investments as at 31.12.2023 in excess of 1 year maturing in each year	Nil	Nil	Nil

1.7 Financial implication of the 24/25 Treasury budget

1.7.1 The budget for treasury investment income in 2024/25 is £0.701m, based on an average investment portfolio of £14m at an average interest rate of 5%. This is an increase from the £0.505m budgeted for in 2023/24, based on an average investment portfolio of £12m at an average interest rate of 4.30%.

1.7.2 The budget for committed debt interest payable in 2024/25 is £4.782m, based on an average debt portfolio of £187m at an average interest rate of 2.52%. This is also an increase from the 2023/24 budget of £3.819m, based on an average debt portfolio of £171m an average interest rate of 2.46%.

1.7.3 If actual levels of investments and borrowing, or interest rates, differ from those forecasts, performance against budget will be correspondingly different.

2 Borrowing

2.1 Borrowing Strategy

2.1.1 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure (as detailed in table 4.) This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels in the summer of 2024.

2.1.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The S151 Officer, using information supplied by the council's Treasury Advisors, will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances for example:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then long term borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

2.1.3 Any significant decisions made by the S151 officer will be reported to the Accounts, Audit and Risk Committee (AARC) at the next available opportunity. In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

2.1.4 **Forecast of borrowing rates:** It is expected that the Bank of England base rate will become more stable and slowly reduce from its current forecast rate of 5.25% in March 2024 to 3.00% by March 2026.

2.2 Approved Sources of Long and Short-term Borrowing

	Fixed	**Variable**
Public Works Loan Board (PWLB) and any successor body	●	●
Any other UK public sector body e.g., other councils	●	●
Any other bank or building society authorised to operate in the UK	●	●
Any institution approved for investments (see below)	●	●
UK private and public sector pension funds (except Oxfordshire County Council Pension Fund)	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Overdraft	●	
Internal borrowing (capital receipts & revenue balances)	●	

2.2.1 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

	Fixed	**Variable**
Finance Leases	●	●
Hire purchase	●	●
Private Finance Initiative	●	●

2.3 Policy on Borrowing in Advance of Need

2.3.1 The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be taken in consideration of the forecast Capital Financing Requirement, forecast interest rate changes, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of investing such funds.

2.3.1 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.4 Debt Rescheduling

2.4.1 As the council's PWLB loan portfolio has an average interest rate of 2.18% the PWLB would currently reward early repayment due to the discount rates on offer. For example, if the council repaid the £25m loan maturing in 2071 the PWLB would offer a 4.06% discount rate which would equate to £12.5m discount. However, a statutory override would require any discount to be amortised to revenue over 10 years, which reduces the initial revenue benefit. In addition, the council is currently in an under borrowed position and premature repayment would be problematic as loans at higher rates would need to be taken and this would create additional revenue cost. The option to reschedule existing loans will be reviewed on a regular basis and any decision making would be supported by a net present value appraisal, which would provide expected whole life net General Fund benefit.

2.4.2 If any loan rescheduling is to be undertaken, it will be reported to the Accounts, Audit and Risk Committee, at the earliest meeting following its action.

3 Investing

3.1 Investment strategy

3.1.1 The council's investment priorities will be **security first, portfolio liquidity second and then yield (return).** The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the council's risk appetite.

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

3.1.3 This council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a.) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

b.) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

c.) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.1 (Table 8.)

d.) **Transaction limits** are set for each type of investment in 3.2 (Table 9.)

e.) This council will set a limit for its investments which are invested for **longer than 365 days**, (see point 1.6 Treasury Management indicators).

f.) All investments will be denominated in **sterling**.

g.) As a result of the change in accounting standards for 2022/23 under IFRS 9, this council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

h.) However, this council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Monthly monitoring of investment performance will be carried out during the year.

The above criteria are *unchanged* from last year.

3.2 Approved counterparties

3.2.1 The council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 8: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£3m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£3m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3 m 4 years	£3m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£3m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£3m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£3m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£3m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None*	None	None	£5m 2 years	None	None
Pooled funds		£5m per fund or trust			

** Any other UK public sector body e.g. other councils*

This table must be read in conjunction with the notes below:

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and councils and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

Financial Derivatives: The council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Operational bank accounts: The council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank wherever possible e.g. except for overnight balances where funds are received during the day and it is too late to transfer to another counterparty. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has it's credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made until it improves sufficiently to meet our minimum criteria ,
- consideration of risk of default of existing investments and whether they can be recalled or sold at no cost will be made, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other councils. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: In order that the council's revenue reserves available to cover investment losses are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.3 Investment limits

3.3.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director of Finance (S151 Officer) and staff, who must act in line with the treasury management strategy approved by council. Reports on treasury management activity are presented to the Accounts, Audit & Risk Committee. The Accounts, Audit & Risk Committee is responsible for scrutinising treasury management decisions.

3.3.2 To reduce risk, investment limits have been set, as laid out in Table 9 below.

Table 9: Monetary limit for investment types

	Investment limit
UK Central Government	Unlimited
Any single organisation, including UK public sector body e.g. other councils	£5m each
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£3m per broker
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£5m in total
Money market funds	£15m in total
Real estate investment trusts	£5m in total

3.4 Related Matters

3.4.1 **Markets in Financial Instruments Directive (MiFID II)**: The council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Assistant Director of Finance (S151 Officer) believes this to be the most appropriate status.

3.4.2 This requires the council to have a minimum investment balance £10 million and the person making investment decisions on behalf of the council to have at least one year's relevant professional experience. Investments as well as cash deposits are count towards meeting the £10 million threshold.

3.4.3 **General Data Protection Regulation 2018:** Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

4 Appendices

4.1 Economic Commentary from the Link Group 31/12/2023

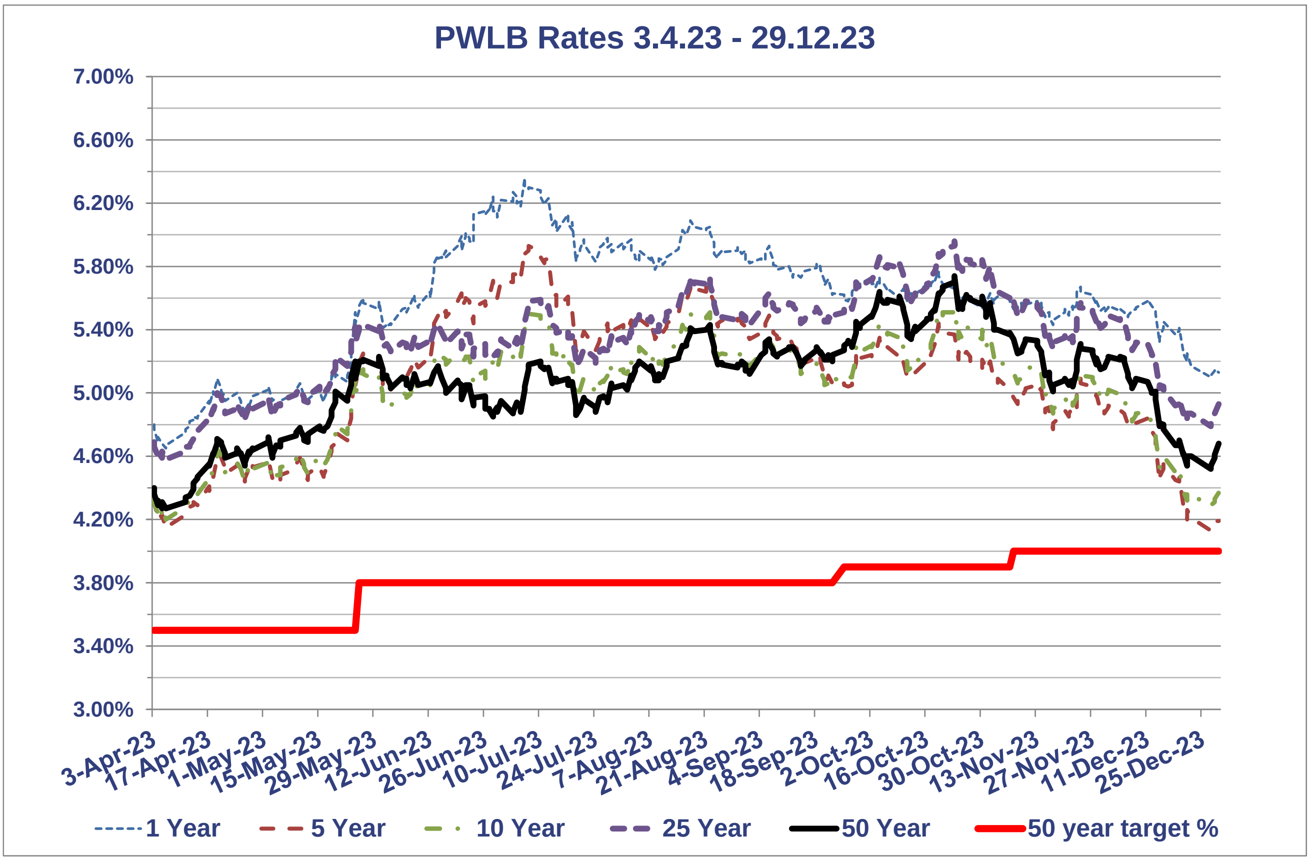
- The third quarter of 2023/24 saw:

  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding rates at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23



MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.

- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

4.2 Link Interest rate forecasts - Quarter Ended 31st December 2023

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 councils since 1st November 2012.

Link Group Interest Rate View	07.11.23												
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View	24.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by councils for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

4.3 **Glossary of terms**

Counterparties - an opposite party in a contract or financial transaction. This may include the central Government, councils, Banks and Building societies to name a few.

Cost of Carry - The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

Debt Rescheduling - A change in the terms of outstanding loans. The rescheduling can take the form of an entirely new loan, or it could mean repaying the debt early for a discount if the current market rates are higher than the fixed interest on the loan.

General Balances and Reserves – The General balance has been created by keeping aside surplus funds during the course of an accounting period to meet contingencies or offset future losses. Reserves however are created for a specific purpose. This may be funds that have been received and earmarked for a specific purpose in the future.

Internal Borrowing – Instead of taking external loans to fund activities such as Capital expenditure, the council may use income and grants received in advance, to fund these activities. Usually, surplus funds are invested to earn interest, however it is prudent to use these funds instead of loaning money as loans generally cost more than could be earned by investing the funds.

Laddering – is an investment technique that requires investors to purchase multiple financial products with different maturity dates. The aim is to produce steady cash flow by deliberately planning investments.

Liability Benchmark – demonstrates how a council's existing debt maturity profile and other cash flows affect their future debt requirement. Its aim is to show whether the council is in an over-borrowed position (existing debt maturity profile is greater than their forecast debt requirement) or an under-borrowed position (existing debt maturity profile is less than their forecast debt requirement.) In monitoring this position the council can aim to secure interest rates at the acceptable rates and manage interest payable costs.

Accounts, Audit and Risk Committee
Work Programme 2023/24

Date	Agenda Items
20-Mar-24	Counter Fraud Update External Audit slot Annual Report of AARC Risk Monitoring Report - Q3 2023/2024 Housing Benefit Subsidy Audit Housing Benefit Risk Based Verification Policy Work Programme Update AGS 2022/23 Actions Update Housing Benefit Subsidy Audit 2020/21

This page is intentionally left blank