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Agenda

Audit Committee Meeting

Date: Wednesday, 24 January 2024
Time 7.00 pm
Venue: Council Chamber, Swale House, East Street, Sittingbourne, ME10 3HT*

Membership:

Councillors Andy Booth, Derek Carnell (Vice-Chair), Simon Clark (Chair), Angela Harrison, Mike Henderson, Rich Lehmann, Tara Noe, Richard Palmer and Dolley Wooster.

Quorum = 3

Pages

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(d) Anyone unable to use the stairs should make themselves known during this agenda item.

2. Apologies for Absence

3. Minutes

To approve the Minutes of the meeting held on 23 October 2023 (Minute Nos. 380 – 383) as correct records.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves, their families or friends.

The Chair will ask Members if they have any disclosable pecuniary interests (DPIs) or disclosable non-pecuniary interests (DNPIs) to declare in respect of items on the agenda. Members with a DPI in an item must leave the room for that item and may not participate in the debate or vote.

Aside from disclosable interests, where a fair-minded and informed observer would think there was a real possibility that a Member might be biased or predetermined on an item, the Member should declare this and leave the room while that item is considered.

Members who are in any doubt about interests, bias or predetermination should contact the monitoring officer for advice prior to the meeting.

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This item was added on 17.01.2024

Issued on Monday, 15 January 2024

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Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Audit Committee	
Meeting Date	24 January 2024
Report Title	**Treasury Management Strategy 2024/25**
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant
Classification	Open
Recommendations	1. To recommend to Policy and Resources committee the Treasury Management Strategy 2024/25 and the Prudential and Treasury Management Indicators.

1. Purpose of Report and Executive Summary

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. External Context

2.1 **Economic background:** The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

2.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

2.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

2.4 ONS figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

2.5 ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

2.6 **Credit outlook:** Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

2.7 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

2.8 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

3. Background

Interest Rate Forecast and Market Outlook

3.1 **Interest rate forecast (December 2023):** Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

3.2 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Official Bank Rate	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
	%	%	%	%	%	%	%	%	%	%	%	%	%
Upside Risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside Risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

3.3 For the purpose of setting the 2024/25 budget, it has been assumed that new treasury investments will be made at an average rate of 4.50%, and that new short-term loans will be borrowed at an average rate of 5.50%.

3.4 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then an assessment of savings will be made with a view to transferring an appropriate amount to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years. Transfers to reserves will be brought before the Policy and Resources Committee for approval.

Borrowing Strategy

3.5 The Council’s chief objective, when borrowing money, is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.

3.6 The Council currently holds £5 million of loans, as part of its strategy for funding previous years’ capital programmes. The Council may borrow additional sums to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £57.5 million.

3.7 Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. Recently this has been funded from borrowing from other Local Authorities. There is also an option to borrow from Public Works Loans Board (PWLB), which is part of the Debt Management Office which is part of the Treasury. Borrowing from PWLB can be for up to 50 years at rates which are below commercial rates.

3.8 CIPFA has published its revised Prudential Code and Treasury Management Code of Practice and these are available for sale on the CIPFA publications website. The Revised Prudential Code took effect from December 2021, although authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. It particularly highlights that the requirement that local authorities must not borrow to invest primarily for financial return applies with immediate effect. In August 2021 HM Treasury significantly revised their PWLB guidance. This includes a statement highlighting that the government and CIPFA are clear that borrowing to invest for yield is not permitted under the prudential framework. This Council has had a clear policy of not borrowing for income purposes.

3.9 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

3.10 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.11 The Council may also consider forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a "cost of carry" in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

3.12 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB Lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- Any institution approved for investments
- UK Local Authorities
- Any other UK public sector body
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

3.13 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire Purchase
- Private Finance Initiative
- Sale and Leaseback

- Similar Asset Based Finance

3.14 The Council has the following loan outstanding:

Lender	Amount (£ million)	Borrowing rate	Start Date of Loan	Maturity Date of loan	Duration
North Northamptonshire Council	5	4.30 %	27/02/2023	26/02/2024	12 months
Total	**5**				

Capital Programme

3.15 The capital program contains a number of projects that will need to be funded from borrowing. The anticipated breakdown of capital funding is detailed in Appendix I. The Director of Resources has delegation to make borrowing decision as and when required to ensure best value is obtained and risks are minimised.

3.16 Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

3.17 Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. As we currently don’t have any long-term loans, this would not be applicable to 2024-25.

Treasury Investment Strategy

3.18 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council’s investment balance has ranged between £7.5 and £46.1 million with an average investment balance of £25 million. Levels are expected to be slightly lower in the forthcoming year, as capital projects require payment, as well as a reduction in passported government grant schemes.

3.19 The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

3.20 The Council largely uses Money Market Funds and the Debt Management office for short-term investments. The only long-term investment remains the £3 million in the Church, Charities and Local Authorities (CCLA) Property Fund.

3.21 The CIPFA Code doesn’t permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value raises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

3.22 **Environmental, Social and Governance Policy** (ESG): considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

3.23 **Business models:** Under the International Financial Reporting Standard (IFRS) 9 the accounting for certain investments depends on the Council’s “business model” for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

3.24 The Council could make use of the following counterparties for both Treasury and Non Treasury investments:

Treasury Investments	
Government	Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities 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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
Banks and Building Societies (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.
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 £500,000 per bank. 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.

Money Market Funds	Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
Strategic Pooled Funds	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.
Registered Providers (unsecured)	Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing in England. As providers of public services, they retain the likelihood of receiving government support if needed.
Secured investments	Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
Other Investments	This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
Non-Treasury Investments	
Non-Treasury Investments	The Council invests in property in the borough and will, where there are opportunities, consider further investment, where this is primarily related to the functions of the Council such as service delivery and regeneration. However, the Council will not borrow to invest primarily for financial return.

3.25 The Council will retain the CCLA property fund and keep the remaining monies primarily in Money Market Funds and the Debt Management Account Deposit Facility (DMADF) (an investment facility operated by the UK Government) or other counterparties in table 4.1. The Head of Finance and Procurement does not believe that investing in equity or bond funds is advisable at the current time, given equity market valuations and the impact on bond investments. This will be reviewed as market conditions develop.

3.26 Currently the Council makes no direct investments in equities or corporate bonds. If this changed in the year the Head of Finance and Procurement will ensure that investments are consistent with the Council's health and climate change objectives.

3.27 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 its credit rating downgraded, so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and,
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

3.28 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.

3.29 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 and 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 meet the credit rating criteria.

3.30 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, or with other local authorities. This will cause investment returns to fall, but will protect the principal sum invested.

3.31 The Council currently has the following Investments:

Counterparty	**Average Rate %**	**Balance Invested at 30 November 2023 £'000**
Invesco Money Market Fund	5.33	3,000
DWS (Deutsche) Money Market Fund	5.24	2,470
Goldman Sachs Money Market Fund	5.27	3,000
Aberdeen Standard Money Market Fund	5.25	3,000
Black Rock Money Market Fund	5.27	3,000
Morgan Stanley Money Market Fund	5.32	3,000
SSGA Money Market Fund	5.29	3,000
CCLA Property Fund	5.04	3,000
Total Investments		**23,470**

3.32 The definition of investments in CIPFA's revised Codes now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the 2018 Investment Guidance from the Department of Levelling Up, Housing and Communities (DLUHC), in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Prudential and Treasury Management Codes now have detailed definitions of treasury, service and commercial investments.

3.33 The Council has not made, and will not make, any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

3.34 At 31 March 2023 the Council held £4.173 million of longstanding investments in 12 directly owned properties. These investments generated £0.2 million of investment income for the Council in 2022/23 after taking account of direct costs, representing a rate of return of 5.8%. No significant change in this Investment is anticipated in 2024/25.

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

3.36 The loans made by the Council are shown below:

	31 March 2023 **£'000**
Housing repair loans	1,748
Employee car loans	51
Other debtors	304
Total	**2,103**

3.37 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, a loss allowance is calculated for each debt reflecting the statistical likelihood that the debtor will be unable to meet their contractual commitments to the Council, which for 2022/23 was £97,000. The loss allowance has been calculated by reference to the Council's historic experience of default. In addition, to mitigate risk, all debts have to be managed in accordance with the Council's Financial Regulations.

3.38 The most significant loans shown are the Housing Repair Loans which are loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. The risk relating to these loans is low as they are a charge of the property and are repayable when a property is sold.

3.39 An analysis of short-term debtors is reported to Policy and Resources committee as part of the quarterly Financial Management Report.

4. Proposal

4.1 **Approved counterparties**: 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.

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

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

* **Minimum credit rating**: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. 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.

4.2 The Director of Resources in consultation with the Chair of Policy and Resources committee may consider longer duration depending on market conditions.

4.3 The Council may also purchase property for investment purposes, but the Council will not borrow to invest primarily for financial return. The Council may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council’s owned companies, in line with existing policies and where there is a sound business case.

4.4 The Council does not directly invest in financial derivatives although these may be present in pooled funds and will be managed in line with the overall treasury strategy. 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. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

4.5 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be manged in line with the overall treasury risk management strategy.

4.6 The Head of Finance and Procurement ensures that any commercial deals meet the regulatory requirements and the CIPFA prudential framework.

Treasury Adviser

4.7 The Council has appointed Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. Officers meet with Arlingclose on a quarterly basis, receive information daily and attend relevant training courses.

4.8 The day-to-day treasury management activity is undertaken on the Council’s behalf by Kent County Council’s Treasury & Investments team to the criteria set out in this report. This has been particularly beneficial in using their relationships to obtain the low-cost loans from other Councils.

5. Alternative Options

5.1 The Strategy is intended to give flexibility with regard to borrowing and investment options.

5.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources believes that the above Strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however, long-term interest costs may be less certain

6. Consultation Undertaken or Proposed

6.1 Consultation has been taken with Arlingclose.

7. Implications

Issue	Implications
Corporate Plan	Good management of the Council’s cash balances assists the overall financial position of the Council and this helps to meet the emerging Corporate Plan objectives.
Financial, Resource and Property	The budget for net investment income in 2024/25 is £(121,000).
Legal, Statutory and Procurement	Government and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Environment and Climate/Ecological Emergency	Not applicable
Health and Wellbeing	Not applicable
Safeguarding of Children, Young People and Vulnerable Adults	Not applicable

Issue	Implications
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.
Equality and Diversity	Not applicable
Privacy and Data Protection	Not applicable

8. Appendices

8.1 The following appendices are published with this report and form part of the report.

- Appendix I Treasury Management Prudential Indicators

9. Background Papers

None

Acronyms Used:

BoE	The Bank of England
CCLA	Church, Charities and Local Authorities
CFR	Capital Financing Requirement
CIPFA	The Chartered Institute of Public Finance and Accountancy
DLUHC	Department of Levelling Up, Housing & Communities
DMADF	Debt Management Account Deposit Facility
MHCLG	Ministry of Housing, Communities and Local Government
PWLB	Public Works Loan Board

Treasury Management Prudential Indicators

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. Statutory guidance states that external debt should not exceed the capital financing requirement in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two years. The table below demonstrates that the Council is complying with this aspect of the Prudential Code.

Gross Debt and the Capital Financing Requirement	**2023/24 Revised**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	60,521	72,390	77,412	76,445
Gross External Debt (incl leases)	(10,000)	(30,500)	(40,500)	(50,500)
Internal Borrowing	**50,521**	**41,890**	**36,912**	**25,945**

Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2024/25 Budget Report to Policy and Resources Committee.)

Capital Expenditure and Financing	**2023/24 Revised**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Total Expenditure	**33,185**	**31,384**	**10,625**	**4,935**
Section 106 Contribution	110	0	0	0
Grants	14,015	16,469	2,725	2,725
Capital receipts	2,463	0	0	0
Reserves	1,910	871	350	460
Borrowing	14,687	14,044	7,550	1,750
Total Financing	**33,185**	**31,384**	**10,625**	**4,935**

Treasury Management Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2023/24 Revised**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
General Fund Total	5.16%	6.85%	6.59%	6.36%

Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council’s existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2023/24 Revised £’000**	**2024/25 Estimate £’000**	**2025/26 Estimate £’000**	**2026/27 Estimate £’000**
Borrowing	60,000	55,000	55,000	50,000
Other long-term liabilities	2,500	2,500	2,500	2,500
Total	**62,500**	**57,500**	**57,500**	**52,500**

Treasury Management Prudential Indicators

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2023/24 Revised £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**
Borrowing	40,000	45,000	45,000	40,000
Other long-term liabilities	1,000	1,000	1,000	1,000
Total Operational Boundary	**41,000**	**46,000**	**46,000**	**41,000**

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£(180,000)
Upper limit on one-year revenue impact of a 1% fall in interest rates	£180,000

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	**Lower Limit for 2024/25 %**	**Upper Limit for 2024/25 %**
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

Time period starts on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Treasury Management Prudential Indicators

Long-term treasury management investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price Risk Indicator	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**No Fixed Date £'000**
Limit on principal invested longer than 1 year	10,000	10,000	10,000	10,000

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

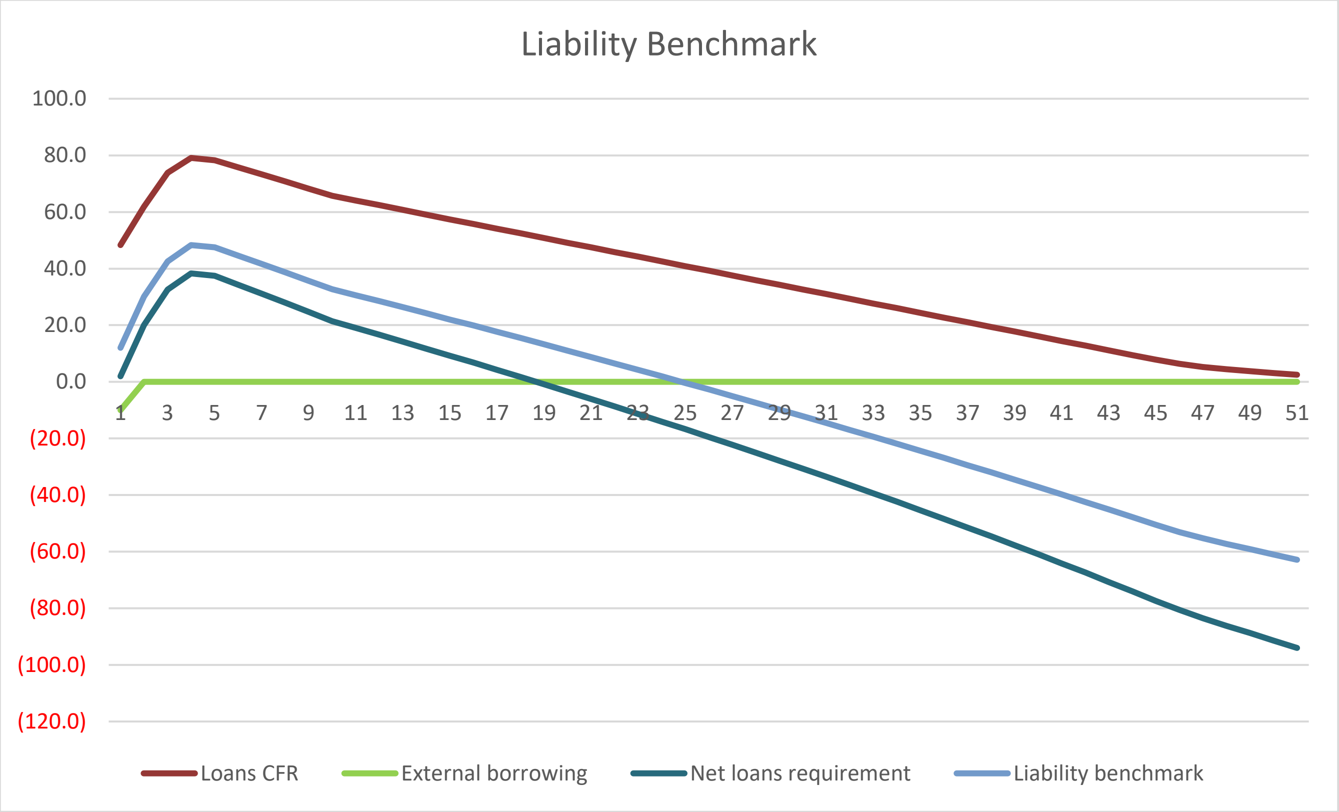
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Prudential Indicator: Liability benchmark

	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**
Loans CFR	48.3	61.9	73.9	79.1	78.3
Less: Balance sheet resources	(46.3)	(41.8)	(41.3)	(40.8)	(40.8)
Net loans requirement	**2.0**	**20.1**	**32.6**	**38.3**	**37.5**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**12**	**30.1**	**42.6**	**48.3**	**47.5**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).

Treasury Management Prudential Indicators



Treasury Management Half Year Report 2023-24

Audit Committee Meeting	
Meeting Date	24 January 2024
Report Title	Treasury Management Half Year Report 2023/24
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Olga Cole, Management Accountant
Classification	**Open**
Recommendations	1. To note the performance information in this report. 2. To note the prudential and treasury management indicators within the report.

1 Purpose of Report and Executive Summary

1.1 The purpose of this report is to review the mid-year position on treasury management transactions for 2023/24, including compliance with treasury limits and Prudential and Treasury Performance Indicators.

1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.

1.3 The Council's Treasury Management Strategy for 2023/24 was approved at a meeting on 22 February 2023. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.

1.4 In conclusion the Council can confirm that it has complied with its Prudential Indicators for 2023/24 which were set in February 2023 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2 Background

Market Environment

2.1 **Economic background:** UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE

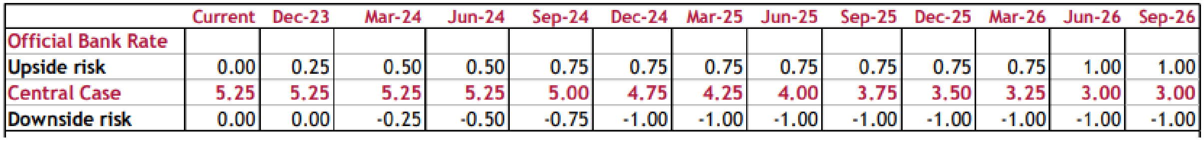
Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise, and the interest rate has remained at this level since.

2.2 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

2.3 Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

2.4 Following the September MPC meeting, Arlingclose, the Council’s treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

2.5 Arlingclose’s Economic Outlook for the remainder of 2023/24 (based on 25th September 2023 interest rate forecast).



	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	**5.25**	**5.25**	**5.25**	**5.25**	**5.00**	**4.75**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.00**	**3.00**
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

Arlingclose do not expects Bank Rate to rise further than 5.25% during 2023/24.

2.6 **Credit review:** Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

2.7 Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

2.8 Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council’s counterparty list recommended by Arlingclose remains under constant review.

Borrowing

2.9 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

2.10 On 1 April 2023, the Council had two loans from other local authorities, totalling £10m. During the first half of the financial year the Council has repaid one loan. On 30 September 2023, the Council's external borrowing stood at £5m and further details can be found within appendix I below.

Investments

2.11 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. These counterparties were agreed by Policy and Resources Committee and Council earlier this year when the 2023/24 Treasury Strategy was approved.

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

* Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. 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.

**These funds have no defined maturity dates but are available for withdrawal after a notice period.

2.12 The Council holds significant investment funds, representing income received in advance of expenditure plus balance and reserves held. During the six months to 30 September 2023 the Council held average daily cash balance of £19.6m (£28.2m September 2022).

2.13 The Council's budgeted investment income for the six months to 30 September 2023 was £113k (£83k September 2022) and the actual income received was £484 (£174k September 2022), of which £64k (£58k September 2021) was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.14 The results for the six months to 30 September 2023 show that the Council achieved 0.78% (0.23% September 2022) average return below the average Sterling Overnight Index Average (SONIA) and 0.80% average return rate below the average Bank of England Base Rate.

2.15 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 4.26%, comprising of a £64k (3.84%, £58k September 2022) income return. Since this fund has no defined maturity date but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Considering its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

2.16 **Statutory override:** In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggest not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Compliance with Prudential Indicators

2.17 The Council can confirm that it has complied with its Prudential Indicators for 2023/24 which were set in February 2023 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2.18 Prudential and Treasury Management Indicators are set out in Appendix II.

3 Proposals

3.1 No changes are proposed at this stage.

4 Alternative Options Considered and Rejected

4.1 The Head of Finance and Procurement will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5 Consultation Undertaken or Proposed

5.1 Consultation has been undertaken with the Council's retained treasury management consultants Arlingclose.

6 Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Climate/Ecological Emergency	The Council does not own any shares or corporate bonds so there are no ethical investment considerations to be met.
Health and Wellbeing	Not relevant to this report.
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report.
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report.
Privacy and Data Protection	Not relevant to this report.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 September 2023
- Appendix II: Prudential and Treasury Management Indicators

8 Background Papers

8.1 None.

Investments and Borrowings as at 30 September 2023

Counterparty	**Long-Term Rating**	**Balance Invested & Borrowed at 30 September 2023 £'000**
Money Market Funds		
Invesco Money Market Fund	AAAmmf	3,000
Goldman Sachs Money Market Fund	AAAmmf	2,175
Aberdeen Money Market Fund	AAAmmf	2,460
Black Rock Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	3,000
SSGA Money Market Fund	AAAmmf	3,000
CCLA Property Fund		3,000
Total Fixed Term Deposits, Money Market and Property Funds		**19,635**
TOTAL INVESTMENTS	**Maturity Date**	**£'000**
North Northamptonshire Council	26/02/2024	(5,000)
TOTAL BORROWING		**(5,000)**

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAAmmf: Fund has very strong ability to meet the dual objective of providing liquidity and preserving capital.

Investment Activity in 2023/24

Investments	**Balance on 01/04/2023 £'000**	**Investments Made £'000**	**Investments Repaid £'000**	**Balance on 30/09/2023 £'000**	**Average Rate %**
Short Term Investments and Cash and Cash Equivalents	6,550	101,360	(91,275)	16,635	4.00
Long Term Investments	3,000	0	0	3,000	4.26
TOTAL INVESTMENTS	**9,550**	**101,360**	**(91,275)**	**19,635**	

Borrowing Activity in 2023/24

Borrowing	**Balance on 01/04/2023 £'000**	**Borrowing Made £'000**	**Borrowing Repaid £'000**	**Balance on 30/09/2023 £'000**	**Average Rate %**
External Borrowing	10,000	0	(5,000)	5,000	4.21
Total Borrowing	**10,000**	**0**	**(5,000)**	**5,000**	

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

The Council holds £4.173m (£4.03m September 2022) of a long-standing portfolio of 12 investment properties within the borough. These investments are expected to generate £0.2m (£0.2m September 2022) of investment income for the Council after taking account of direct costs, representing a rate of return of 5.8% (5.2% September 2021).

Prudential and Treasury Management Indicators

Appendix II

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	**2022/23 Actual**	**2023/24 Revised Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	48,406	53,996	61,000	67,803
External Borrowing	(10,000)	(30,000)	(35,000)	(50,000)
Cumulative External Borrowing Requirements	**38,406**	**23,996**	**26,000**	**17,803**

External Borrowing: as at 30 September 2023 the Council had £5 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	**2022/23 Actual**	**2023/24 Revised Estimate**	**2024/25 Original Estimate**	**2025/26 Original Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Total Expenditure	**6,967**	**26,522**	**29,711**	**9,963**
Revenue contributions	1,941	50	509	0
Capital receipts	28	2,463	0	0
Grants and other contributions	3,338	9,574	14,602	2,163
Internal/ External borrowing	1,660	14,435	14,600	7,800
Total Financing	**6,967**	**26,522**	**29,711**	**9,963**

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2022/23 Actual %**	**2023/24 Estimate %**	**2024/25 Estimate %**	**2025/26 Estimate %**
Total	**1.88**	**6.62**	**6.84**	**5.25**

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/09/2023	**£'000**
Borrowing	5,000
Other Long-term Liabilities	0
Total	**5,000**

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**
Borrowing	55,000	55,000	50,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	**57,000**	**57,000**	**52,000**

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**
Borrowing	45,000	45,000	40,000
Other Long-term Liabilities	500	500	500
Total Debt	**45,500**	**45,500**	**40,500**

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The Head of Finance and Procurement confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2023.

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	**Actual level at 30/09/23**	**2023/24 Approved Limit**	**Complied?**
Interest on fixed rate borrowing	100%	100%	✓
Interest on fixed rate investments	-0%	-100%	✓
Interest on variable rate borrowing	0%	100%	✓
Interest on variable rate investments	-100%	-100%	✓

8. Maturity Structure of Borrowing

This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were.

Maturity structure of borrowing	**Existing level at 30/09/23 %**	**Lower Limit for 2023/24 %**	**Upper Limit for 2023/24 %**	**Complied**
Under 12 months	100	0	100	✓
12 months and within 24 months	0	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country’s net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance and Procurement confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	**2023/24** **£’000**
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

11. Investment Benchmarking for the six months to 30 September 2023

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average Overnight SONIA Rate
4.00%	4.25%	4.80%	4.78%

Audit Committee Meeting	
Meeting Date	24 January 2024
Report Title	Internal Audit & Assurance Progress Report 2023/24
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Katherine Woodward – Head of Audit Partnership
Lead Officer	Katherine Woodward – Head of Audit Partnership
Classification	**Open**
Recommendations	1. That work completed so far on the 2023/24 Audit & Assurance Plan be noted.

1 Purpose of Report and Executive Summary

1.1 This report is for information and summarises progress towards delivering the Internal Audit to date. In addition, it also provides updates on:

- Completed 2022/23 audits which will be used to inform the 2023/24 Audit Opinion.
- Resource changes with the Mid Kent Audit Partnership team.
- Overall progress.
- The results of the follow up of agreed management actions.

2 Background

2.1 The Audit Committee approved the 2023/24 audit plan in April 2023. This report provides information to Members on the work completed on the Internal Audit Plan..

3 Proposals

3.1 We present the report to Members for their information and for noting.

4 Alternative Options Considered and Rejected

4.1 We present the report to Members for their information and for noting.

5 Consultation Undertaken or Proposed

5.1 We present the report for Member information and for noting. There has been no formal consultation, but its content has been discussed with the Director of Resources and Executive Management Team.

Issue	Implications
Corporate Plan	Mid Kent Audit's work supports all Council activity and the wider Corporate Plan in evaluating governance
Financial, Resource and Property	The work internal audit does on behalf of Swale Borough Council, is carried out within agreed resources.
Legal, Statutory and Procurement	The Council is required by Regulations to deliver a conforming internal audit service
Crime and Disorder	No direct implications
Environment and Climate/Ecological Emergency	No direct implications
Health and Wellbeing	No direct implications
Safeguarding of Children, Young People and Vulnerable Adults	No direct implications
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering areas for audit review. In turn, audit findings will provide feedback on identification and management of risk.
Equality and Diversity	No direct implications
Privacy and Data Protection	We handled all information collected by the service in line with relevant data protection policies.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

Appendix I: Internal Audit & Assurance Progress Report.

8 Background Papers

Full reports which support the audit engagements summarised in this report are available on request. In addition, previous Audit Committee reports can be found here.

MID KENT AUDIT

Internal Audit & Assurance Progress Report

January 2024
Swale Borough Council

Swale
BOROUGH COUNCIL

Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

2. The mission and its associated code of ethics and Standards govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the Accounts and Audit Regulations 2015. The Regulations state services must follow the Public Sector Internal Audit Standards – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting.

Audit Charter

3. This Committee approved our *Audit Charter* in September 2020, and it remains in place through this audit year. A revised Audit Charter will be presented to the Audit Committee later in the year.

Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.

5. We have worked with full independence as defined in our Audit Charter and Standard 1100. On no occasion have officers or Members sought or gained undue influence over our scope or findings.

Management response to risk

6. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far, management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Agreed Actions Follow Up Results*.

7. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Need

8. We reported in our plan presented to this Committee in April 2023 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

> *MKA has the skills and expertise to deliver the 2023/24 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2023/24 to be delivered in Spring 2024.*

9. Since April 2023 we have experienced further change within the audit team:

    - The Interim Deputy Head of Audit / Audit Manager left the council in June 2023.
    - Two other members of the team, an Auditor and the Risk and Governance officer also left to pursue other opportunities.

10. The departures since April 2023 and those prior to April, gave rise to an opportunity to consider the structure and capacity of the Mid Kent Audit team. Following a restructure to ensure the service is fit to deliver the services required for each of the partners and to fulfil its statutory responsibilities, a number of appointments have been made.

11. Since August 2023 we have recruited two internal auditors and internally promoted three members of the team. We currently have three vacant posts, one of which is being covered through use of external contractors, who are also resourcing the staffing gap we had in place prior to the recent recruitment exercises.

12. Despite all this change we continue to make progress through the Audit Plan although overall delivery of the plan has been impacted.

Audit Plan Progress: Closing 2022/23

13. In July, there were several audit engagements, approaching completion that did not finish in time for Committee deadlines. The results of these audits will now feed into the Head of Audit Partnership annual assurance opinion for 2023/24.

Audit Review (2022/23)	Audit status	Assurance rating	Number of Actions by Priority Rating		
			High	Medium	Low
Licensing Enforcement	Complete	Sound		3	
Private Water Supply	Complete	Sound			5
Swale House Refurbishment Project	Review stage				

Audit Plan Progress: 2023/24

14. The table below shows current and expected progress through the engagements described in the 2023/24 Audit Plan:

Audit Review	Current position
Social Media	Work in progress
Safety Partnerships	Transfer to 2024/25
Public Health Funerals	Work in progress
Elections Management	Audit under review
Conservation & Heritage	Work in progress
Animal Welfare	Draft Report
Financial Planning – BACS Project	
General Ledger	
Grounds Maintenance	Complete - Strong
Leisure Services	
Emergency Planning	Transfer 2024/25
Performance Management	Transfer 2024/25
Housing Benefits	Allocated
* HR Policy and Compliance	
* Learning & Development	Work in progress
* Land Charges	
* Cyber Security	Work in progress
* IT Disaster Recovery	Work in progress
* Compliance with Computer Use Policy	

* shared service audits, work will include all authorities included in the shared service

15. The Audits that have not been allocated yet will be allocated when resources become available within the team.

16. Based on the work that is completed, in progress and proposed to be completed I can confirm that there will be sufficient work completed to enable an audit opinion to be delivered for 2023/24.

Overall progress

17. The table below also summarises (up to 31st December) current days on audit plan progress.

Plan Area	Plan Days	Actual to 31-Dec-23
Risk Based Audits	225	96
Following up of agreed actions	16	5
Consultancy & Member Support	37	12
Risk Management	51	7
Planning	24	9
Counter Fraud & Governance Support	18	11
Total	**391**	**140**

18. The significantly lower number of audit days delivered to date is due to the number of vacant posts at the beginning of the year and the natural length of time to get a contractor appointed and delivering audit work. This will balance out towards the end of the year, but there will be an impact on overall plan delivery for 2023/24.

Future progress

19. As part of the review of staffing undertaken earlier in the year, other working practices and efficiencies have been identified which will be considered as part of the 2024/25 audit plan. One of the areas that will be brought to the committee will be a revised approach to audit planning and how this is presented to the audit committee.

20. Every year there are a number of engagements that span into the following year, and we are continually reporting ‘out of sync audits’ to the committee. It is proposed to address this by removing the reference to specific years for audit engagements and to report to the committee a more dynamic and flexible ‘rolling audit plan’. The audit plan will detail the number of audit days available and the audits we are currently working on and that are due based on their current priority ratings.

21. This will allow the management and the audit team to be more flexible to respond to operational need and the current risk profile of the organisation, while delivering a more focussed service.

Agreed Actions Follow Up Results

22. Our approach to agreed actions is to follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We will report progress on implementation to Council's Leadership Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions).

23. As detailed in the yearend report in July, work on following up of actions was paused at that time due to resourcing constraints. This work has now resumed and has highlighted some outstanding actions from previous years and some changes that have been required to the process for ensuring actions are completed. In total, we summarise in the table below the current position on following up agreed actions:

	High	Medium	Low	Total
Total actions 2022/23				
Actions agreed	0	12	11	23
Actions cleared	0	4	3	7
Actions not due	0	5	8	13
Outstanding actions 2022/23	**0**	**3**	**0**	**3**
Outstanding actions 2021/22	0	0	0	0
Outstanding actions 2020/21	0	1	0	1
Outstanding actions 2019/20	0	0	0	0
Total Outstanding actions	**0**	**4**	**0**	**4**

24. These outstanding actions have been raised with the Corporate Leadership Team who are addressing the concerns we have raised regarding implementation of the outstanding work. An update will be provided to the committee in the yearend report, once the new process has embedded within the organisation.

Appendix I

Licensing Enforcement (September 2023)

The licensing service has up-to-date policies in-line with relevant legislation, and policies provide a sound framework for enforcement activities. The constitution clearly defines service roles and responsibilities. However, officers were unable to demonstrate the appropriate approval of supporting policies and protocols available on the Councils website. The Council's website also provides a poor user experience and lacked application and licensing information when compared to other similar local authorities' websites.

The application process was being followed in those cases we tested. Relevant checks had been made and associated documentation retained. However, with inspection record keeping, different versions of inspection templates were used for similar premises and there was an inconsistent application of the scoring mechanism used to categorise premises.

Inspection activity has significantly reduced compared to pre-pandemic figures which has hindered the service in determining a robust inspection regime to contribute to maintaining the risk-based approach defined by the service within its policies.

The service monitors expired licenses and follows a process to suspend licenses when required. Enforcement activities are intelligence led and officers obtain information on licensing issues via regular attendance to a multi-agency forum. Public concerns are a valuable source of local intelligence; however, we found a lack of a defined process for demonstrating the volume, monitoring and status of complaints coming into the service.

The Licensing service does not have a performance management framework to enable the service to report against a considered range of defined targets or desired outcomes.

Private Water Supplies (October 2023)

The Mid Kent Environmental Health (MKEH) function is regulated by the Private Water Supplies (England) Regulations 2016 and the Private Water Supplies (England) (Amendment) Regulations 2018. We found officers across the partnership were suitably experienced and qualified (were necessary) to deliver its primary functions - registration, risk assessments and sampling

We found that MKEH function is fulfilling its statutory obligation of annually submitting data to the (DWI). Likewise, we found the MKEH function publishes Private Water Supply information across its three partnership websites. However, we found it to be out of date and does not outline the approved fees and charges applicable.

The MKEH function has produced a number of procedure and guidance notes, which cover the main processes (registration, risk assessments and sampling. We found some of these to be out of date, which was acknowledged by the partnership. We also identified a disparity between the Private Water Supplies records held and those required under Schedule 4 Private Water Supplies (England) Regulations 2016. We found risk assessments are completed, but identified two supply types were one was not carried out within the regulatory five year period. In the main, sampling is completed but through our testing we identified one supply type which has not been sampled. It was also unclear from the records checked and the conversations held with officers, whether the supply type is active or inactive. We also found six supply types had missing or incomplete sampling paperwork.

Audit Committee Meeting	
Meeting Date	24 January 2024
Report Title	Auditors Annual Report 2022/23
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement
Classification	**Open**
Recommendations	Members are asked to: 1. Note the external auditor's annual report (Appendix I) 2. Consider the recommendations set out within the auditor's annual report and note the management responses.

1 Purpose of Report and Executive Summary

1.1 At the Audit Committee held on 23 October 2023, Grant Thornton provided their Audit Findings Report on the key matters from the audit of the Council's Annual Financial Report for the year ended 31 March 2023.

1.2 The Auditors Annual Report considers whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. An update on the recommendations made last year is also included within the report.

2 Background

2.1 The purpose of the Auditor's Annual Report has changed from previous years. On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Audit Practice which came into effect in 2020/21, which introduced a revised approach to the audit of Value For Money (VFM). There are three main changes arising from the NAO's new approach:

- A new set of key criteria covering:
    - Financial sustainability;
    - Governance; and
    - Improvements in economy, efficiency and effectiveness.
- More extensive reporting by the auditors on arrangements across all the key criteria.
- Auditors undertaking analysis on the Council's VFM arrangements to arrive at a more sophisticated judgement on performance as well as key recommendations identified during the audit.

2.2 The Auditor’s Annual Report provides the Audit Committee with the results of this approach to reviewing the Council’s VFM arrangements covering the three criteria listed above.

2.3 The report is included in Appendix I and Grant Thornton will present their report to Committee.

3 Proposals

3.1 The Auditors Annual Report for the year ended 31 March 2023 is attached as Appendix I.

3.2 It includes three recommendations which are detailed in the report and management comment has been provided for each one.

3.3 The Audit Committee is asked to consider these recommendations.

4 Alternative Options Considered and Rejected

4.1 The Audit Committee could choose to accept, reject or consider further each of the recommendations.

5 Consultation Undertaken or Proposed

5.1 The Director of Resources was invited to comment on the recommendations.

6 Implications

Issue	**Implications**
Corporate Plan	Good financial management and delivering Value For Money is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The External Auditor’s opinion is that the Council’s accounting statements give a true and fair view of the financial position of the Council as at 31 March 2023 and its income and expenditure for the year then ended.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations.
Crime and Disorder	No direct issues
Environment and Climate/Ecological Emergency	No direct issues
Health and Wellbeing	No direct issues

Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

7 Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Auditors Annual Report 2022/23

8 Background Papers

8.1 Detailed working papers are held in the Finance Department.

Grant Thornton

Auditor's Annual Report on Swale Borough Council

2022/23

January 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether Swale Borough Council (the Council) has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	No risks of significant weakness identified.	A	No significant weaknesses in arrangements identified, but one improvement recommendation made.	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.	⬆
Governance	No risks of significant weakness identified.	A	No significant weaknesses in arrangements identified, but one improvement recommendation made.	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.	⬆
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	A	No significant weaknesses in arrangements identified but one improvement recommendation made.	G	No significant weaknesses in arrangements identified.	⬇

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)

Financial sustainability

We have not identified evidence of significant weaknesses within the arrangements on how the Council plans and manages its resources to ensure it can continue to deliver its services. The Council delivered a balanced position at the end of 2022-23 and is planning to achieve a similar position at the end of the 2023-24 financial year as well. However, we have raised one improvement recommendation in relation to considering refining formal reporting on sensitivity analysis and scenario planning, undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP. See page 14 for more detail.

Governance

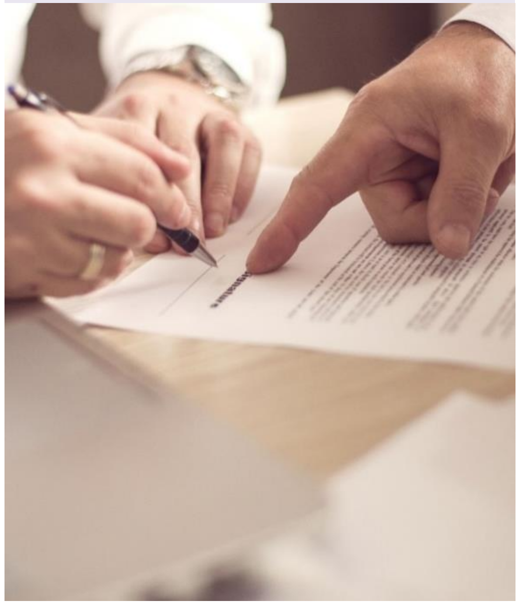
We have not identified evidence of significant weaknesses within the arrangements in place for how the Council makes informed decisions and properly manages its risks. However, we have made one improvement recommendation in relation to the Council should ensure appropriate skilled resource is in place to deliver the agreed internal audit plan to manage the risk of delivery of internal audit plan enabling ability to inform future overall opinion statements. See page 19 for more detail.

Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources. We have not identified evidence of any significant weaknesses. We have made one improvement recommendation highlighting the Council should ensure the recommendations arising from the LGA review and the resulting action plan are implemented detailed on page 23. The Council makes appropriate use of financial and performance information to assess performance to identify areas for improvement . The Council engages with stakeholders it has identified in order to assess whether it is meeting its objectives.

Financial Statements opinion

We have completed our audit of your financial statements and issued an unqualified audit opinion on 1 December 2023, following the Audit Committee meeting on 23 October 2023. Our findings are set out in further detail on pages 28 to 32.



Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 25.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council and Committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties
- Reviewing the Council's Annual Governance Statement and other publications

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape (continued)

Local context

The Council is a local government district with borough status in Kent, England. The Council is based in Sittingbourne, the borough's largest town. The borough also contains the towns of Faversham, Queenborough and Sheerness, along with numerous villages and surrounding rural areas. The Council provides district-level services. County-level services are provided by Kent County Council. Most of the borough is also covered by civil parishes, which form a third tier of local government.

The Council has been under no overall control since 2019. Following the 2023 election a coalition of Labour, local party the Swale Independents and the Green Party have formed the council's administration. The first election to the council was held in 1973, initially operating as a shadow authority alongside the outgoing authorities before coming into its powers on 1 April 1974. The Council is made up of 47 elected members representing 24 wards and employing around 280 full-time equivalent staff.

The Council's corporate plan for the period 2020 to 2023 sets out four overarching priorities and 20 more specific objectives. The corporate plan recognises the extent of the changes which are necessary to make real improvements in the lives of Swale's residents. Key elements of the plan include:

- Adapt to climate change with innovation, reduced use of resources, managed risk to communities and opportunities for biodiversity to thrive.
- Use our coastal assets to support a strong economy and a sustainably managed environment.
- Support economic success and improve community wellbeing with a network of maintained, protected and improved natural assets in town and country.
- Conserve and enhance our historic and natural assets as the means to drive regeneration, tourism, and environmental quality and to reverse declines in their condition.
- Strive for high quality design to bring a better quality of life, opportunities for healthy living and self-confidence to our communities.
- Bring economic growth, regeneration and community development, especially to our most deprived communities.

The Council provides a range of services across the borough, including waste and recycling, economic regeneration and a range of support services including finance, ICT, legal support and personnel.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2022/23 financial performance

The 2022/23 Finance out-turn reported to Policy and Resources committee in July 2023 highlighted a revenue expenditure underspend of £29k and capital slippage against target of £7.187 million (actual capital expenditure of £6.967 million). There is adequate detail of the out-turn report including:

- Housing and Community £1.097 million overspend – the variance was largely due to an increase in the cost of temporary accommodation. This was a mixture of an increase in demand, as well as an increase in the cost of placements. Given the pressure Social Care is under the level of overspend here perhaps isn't unexpected.
- Planning £217k overspend – the variance was due to increased costs of staffing due to difficulties (the Council and sector as a whole is experiencing) in recruiting permanent staff, this is a net position as additional income was also achieved during the year.
- Environment and Leisure (£468k) underspend – parking activity final position was better than budget anticipated. The introduction of charges for replacement wheeled bins also resulted in an underspend on the purchase of replacement bins.
- Shared Services (£309k) underspend – there were a number of staff vacancies across the shared services (including Legal, Information Technology, Environmental Health, Human Resources and Internal Audit) that created savings within the year. Legal Services underspend was a result of lower than budgeted use of the shared Legal Service by the Council.
- Corporate items (£497k) underspend – the main reason for the variance was higher than anticipated investment income due to the increased bank rate. This was slightly reduced by additional insurance costs that were above the budget level.

Short- and medium-term financial planning

The Council identifies the strategic risks relating to the delivery of the 2022/23 – 2024/25 Medium-Term Financial Plan (MTFP) as part of a document titled Budget Challenges, this includes quantification and detailed explanation of the risks.

The 2022/23 Budget (agreed by Cabinet in February 2022) detailed the planned base budget position of £22.0 million. This included an increase to the average Band D Council Tax for parish areas by 2.69% resulting in an average increase for Band D Council Tax for residents of £4.95 for services provided by the Council in 2022/23. The Council determined that the increase in the basic amount of Council Tax for 2022/23 was not excessive in accordance with Schedule 5 of the Localism Act 2011 and therefore did not trigger the requirement for a referendum. Other key assumptions in the budget included a net increase in the level of New Homes Bonus funding of £0.379 million, introduction of a new one-off 2022/23 Services Grant of £0.3 million and continuation of the Lower Tier Services Grant (£0.2 million) which the Government had previously announced as being only for 2021/22.

The budget setting report to Cabinet in February 2022 detailed an overall balanced position based on utilising £1.651 million of Reserves, which was utilised from the Budget Contingency Reserve where the money had been previously set aside for this specific purpose.

The Council planned to maintain a minimum of £1.5 million as its General Fund balance and has assessed there is no reason to change this - the balance in April 2023 was £3.103 million (April 2022 £3.074 million).

The level of contingency built into the proposed budget for 2022/23, alongside the level of general and earmarked reserves, reflects the overall potential risk associated with delivering the budget proposals.

We consider the MTFP, and budget adequately sets out analysis for significant risks identified in relation to the council's budget included inflation, as measured by the Consumer Price Index.

Financial sustainability (continued)

Short- and medium-term financial planning (cont.)

The 2022/23 out-turn report highlights the reasons for significant capital variances and rollovers including:

- Housing and Community Services - Disabled Facilities Grant (DFG) – This accounts for £4 million of the rollover request which would allow the continuation of funding grants approved within 2022/23. The spend is dependent on applications received. Once a grant is approved the applicant has 12 months to complete the work, therefore the DFG spend is a constant rolling process that crosses financial periods.
- Regeneration and Economic Development High Streets – Queenborough and Rushenden Klondyke Land Improvement. This is fully funded from external grant.

The Council has adequately detailed in the 2022/23 out-turn report the actions in place to manage capital rollovers from 2022/23 to 2023/24.

Table 1 highlights the Council's performance for key financial performance metrics. The Council has delivered overall budget expenditure underspends in 2021/22 and 2022/23. The cash position movement is mainly due to the repayment of a short-term loan. The under delivery of planned savings in 2022/23 is discussed on page 12 of this report.

The 2022/23 out-turn report also highlighted the level of reserves on 31 March 2023 was £15.130 million (2021/22 £16.905 million) during 2022/23 there was a budgeted use of the Budget Contingency Reserve of £1.6 million and further transfers to this reserve were made in year as part of the rationalisation exercise. The reserves also funded the Swale Rainbow Homes project, Improvement and Resilience, and Special Projects, Master's House redevelopment, and town centre improvements.

The balances on Special Projects, Improvement & Resilience and Town Centre Reserves are all fully committed and due to be spent in 2023/24. There was significant expenditure incurred from reserves that accounted for the Collection Fund deficit that arose during the Covid pandemic, and that was funded by government grants. These were accounting adjustments that allowed the Council to smooth the impact of the government grant schemes. Contributions were made to the building and asset maintenance reserve, and the ICT equipment reserve to ensure that future peaks in required spend can still be met.

Table 1 – Key Financial performance	2022/23	2021/22
Planned revenue expenditure	£22.0 million	£20.068 million
Actual revenue expenditure	£21.983 million	£ 20.244 million
Planned capital spend	£14.229 million	£15.477 million
Actual capital spend	£6.967 million	£6.083 million
Year-end cash position	£5.166 million	£15.602 million

Financial sustainability (continued)

Identifying savings

Savings identified in consultation with service areas as part of budget development. Monitoring of savings delivery is one of the key areas of focus for the Policy and Resources Committee (formally Cabinet up to May 2022) with membership including all Executive Directors, s151 Officer, the Monitoring Officer as key service representatives. Review of finance updates and reports to the Council (Policy and Resources Committee) highlight the identification of savings to meet the budget gap is in the discussions for the preparation of the 2024/25 budget.

The savings form part of service budgets that are regularly reported to members. Where targets are not being met this information is included in the budget updates.

Financial planning and strategic priorities

The Council's financial planning approach sets out the cost of delivering core statutory services as distinct from discretionary areas of spend. Financial planning reports which support the budget and MTFP highlight all spend is prioritised towards the delivery of core services and achievement of Council Plan priorities. Responsible budget management underpins the Council's strategic objective of consistently making the best use of all available resources as well as providing focus for its change programmes.

Financial planning reports which support the budget and MTFP highlight all spend is prioritised towards the delivery of core services and achievement of "Bearing Fruits 2031" (Swale Local Plan) priorities. The outcomes for the Council set out in the Bearing Fruits 2031, is a key planning document for the Council, setting out the vision and overall development strategy for the area and how it will be achieved for the period from 2014-2031.

Our review highlighted the MTFP does not clearly link budgets (including the Capital plan) to the Council's Plan. Responsible budget management underpins the Council's strategic objective of consistently making the best use of all available resources as well as providing focus for its change programmes. There is an opportunity to strengthen the link between strategic priorities and the capital programme, the capital programme could be categorised by outcomes identified within particular Council Plan outcomes. This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme, We have made an improvement recommendation on page 15 highlighting the benefits for linking MTFP and Capital Plan to Bearing Fruits Plan.

2022/23 Treasury Management performance was reported to Audit Committee in July 2023 which highlighted an in-year movement of the Council's Capital Financing Requirement of £632k. However the closing external borrowing balance of £10.0 million at 31 March 2023 was consistent with the balance held at the end of the previous year.

During 2022/23, the Council held average daily cash balances of £30 million (£38 million for 2021/22). The Council's budgeted investment income for 2022/23 was £166,000 and the actual income received was £704,000. The Treasury Management 2022/23 out turn performance report also detailed the Council's investment portfolio on 31 March 2023 was £9.55 million. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria on 31 March 2023.

Managing risks to financial resilience

Financial resilience risks (included in the Corporate Risk Register) are incorporated into the MTFP which details key risks to delivery of the MTFP and the actions to mitigate of each risk identified. The MTFP was presented and discussed by the Policy and Resources Committee in February 2023 allowing for scrutiny and questioning (before presentation to Council). The MTFP highlights the Council's reserves forms an important role in managing uncertainty. More generally, the Council expects to have expenditure commitments relating to population growth - particularly waste collection and disposal costs. Inflation poses a greater risk to the Council than has been the case in recent years. Spikes in energy prices and supply chain pressures have been a feature of the economic recovery from the pandemic. Additionally the Council assumes no increase in staff pay other than increments that are due and the increase in the real living wage. This is on the basis of moving to a reduced number of hours as standard contract, to 34 hours per week.

Financial sustainability (continued)

Managing risks to financial resilience (cont.)

The MTFP detail from February 2023 showed the budgeted use of reserves for the 2022/23 financial year at £8.4 million which leaves a forecast balance as at 1 April 2023 of £8.5 million. A £1.1 million transfer from the General Reserve is assumed in 2023/24 as part of providing some contingency to the overall budget planning.

Due to the budget pressures being experienced for not only the 2023/24 financial year but also the years following, the Council has had to fundamentally review what services it provides and how they are provided to try and identify savings to help achieve a balanced sustainable budget in future years. Examples of service review included details of an Efficiency Review which as part of the production of budget forecasts a detailed budget review has taken place over the summer and autumn to identify efficiencies and additional income to support frontline services and to balance the Council's financial position. For 2023/24 these total £2.8 million), however based on current forecasts this still leaves a deficit of £2.0 million which will need to be supported from reserves.

The potential impact of changes to various estimates and assumptions is discussed with the Policy and Resources Committee as part of the briefing process in the development of the budget. However, the impact of changes of various estimates and assumptions is not formally reported to members. We have raised a recommendation on page 16 that the Council should consider including formal reporting to the Policy and Resources Committee on sensitivity analysis and scenario planning undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP. This will provide transparency on the sector wide uncertainties the council is subject to and the potential impact of these on its financial sustainability, albeit we do understand these discussions are held internally as part of the wider budget setting process.

The Council takes appropriate action to update financial plans to reflect changes in government policy. Where required, the Council has sufficient provisions in place to consider the impact of legal and regulatory proceedings.

Financial governance

Annual budget setting

The Council has an established process for developing its annual budget and MTFP. The development of the budget commences with the rolling forward of the Budget Model (the model) from the prior year. The model is updated to reflect any known permanent changes to funding, including new grants, latest Council Tax base data and Business Rates. Prior year assumptions are reviewed, including inflation rates and Council Tax base. Updates are then made to reflect new savings proposals, existing savings delivery, service pressures, changes to sources of funding announced within the spending review, changes to service fees and charges and the Council tax base. The model is frozen to prepare the February Council Report. This report contained the financial planning assumptions for the period of the new three-year MTFP (2022/23 - 2024/25) set within this Council Plan. It updates the 2021/22-2024/25 Budget planning position and proposes the approach that will be taken to deliver the savings required to achieve a balanced budget over the MTFP period. The report is clear on the challenges facing the Council, which include the ongoing impact of the pandemic, pressure on services and uncertainty about central government funding.

There is a good level of engagement from budget holders, divisional leadership and executive leadership in the annual budget setting process. The Council has arrangements in place to recognise, assess, and re-evaluate the impact of changes in expenditure drivers, including pay inflation. The MTFP sets out the range of key assumptions that the Council has made in developing its financial plans. These include inflation, pay increases, savings delivery and changes to sources of income. The potential impact of changes of various estimates and assumptions is discussed with the Council as part of the briefing process in the development of the budget.

Table 2 on this page highlights key 2023/24 budget targets agreed in February 2023. The Council adopts a prudent approach which is based on previous years' experience.

Development of the 2023/24 budget (agreed February 2023) highlighted it included the following key assumptions maintain a minimum of £1.5 million as its General Fund balance, a Council Tax increase of £5.67 in the Band D Council Tax to £194.94, or £199.26 should legislation allow districts to increase by £10.00, and it also included planned Capital Expenditure totalling £26.661 million. Overall, a balanced position was set with £2.045 million being used from reserves within 2023/24 to achieve that position.

Budgetary control

The Council has appropriate systems in place for oversight of the budget by the Policy and Resources Committee. The Finance Department engages at least monthly with budget holders. There is monitoring at a service, directorate and corporate level. The Council has detailed in year oversight of the budget at a high level with quarterly budget monitoring reports taken to Policy and Resources Committee which provide timely information to members with appropriate commentary highlighting key areas. These reports include outturn against budget and explanations for underspend/ overspends against budget at a directorate level. Any proposed revisions to the budget are also communicated through this report. There is clear reporting on the forecast outturn and the impact on useable reserves.

A quarterly update is also provided against the Capital Programme, with revisions also communicated. Satisfied that timely and accurate financial monitoring information is provided to budget holders.

Conclusion

The Council has a track record of appropriate financial management arrangements. The Council understands the financial risks which it faces and manages these risks by maintaining an appropriate level of reserves in accordance with its stated reserves objectives in the MTFP. Overall, we are satisfied that the Council has appropriate arrangements in place to manage the risks it faces to financial resilience. We have not identified any risks of significant weakness but have identified one improvement recommendation, detailed on page 14.

Table 2 - 2023/24 key financial performance measures	2023/24
Planned savings	£2.812 million
Planned savings as a % of income	12.2%
Planned revenue expenditure	£23.941 million

Improvement recommendation

Improvement Recommendation 1	The Council should consider refining formal reporting to the Policy and Resources Committee to provide detail on the sensitivity analysis and scenario planning undertaken on key assumptions and estimates, as part of the development of the annual budget and MTFP. Also, the Council should refine the existing arrangements for identifying and monitoring MTFP saving plans to ensure planned savings are fully delivered or where circumstances change to affect delivery these are clearly reported, especially for those in relation to early intervention and demand management
Improvement opportunity identified	Regular review of MTFP assumptions will help to ensure ongoing accurate financial forecasting and allow for appropriate timely action. Reporting a mid-year review of MTFP assumptions, sensitivity analysis and scenario planning to members will provide the opportunity for challenge, scrutiny, oversight and improved the accuracy of forecasting. Sufficient and appropriate arrangements to monitor, manage and address slippages will improve savings delivery and reduce pressure on the Council's useable reserves.
Summary findings	Sensitivity analysis and scenario planning is undertaken as part of the development of the budget; however, this analysis is not formally presented to members. There is a risk that MTFP savings become harder to identify and deliver over the medium-term.
Criteria impacted	Financial sustainability
Auditor judgement	Greater agility on financial management is required given current financial uncertainties, regular review and challenge of MTFP assumptions to help ensure financial forecasts remain accurate. Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	As documented sensitivity analysis and scenario planning form part of the budget discussions throughout the budget planning process, with the latest assumptions then included in the draft budget which are subsequently further updated for the final budget for the coming year, with future year assumptions updated with each annual budget round. Some assumptions are commercially sensitive and so will not be included in the published reports so to avoid increased tender bids and further costs to council contracts. In year budget reporting provides a regular review and challenge of the current year assumptions which then also inform the future year estimates within the MTFP. Management feel that this is sufficient and proportionate oversight of the financial position that is more effective in understanding our controllable costs than is provided with a single year financial settlement with gives significant uncertainty on large government grant funding.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management and internal controls

The Council has a Risk Management Policy, Process Guide and Toolkit to ensure consistent scoring of risks across all Directorates. The Council provides appropriate training on risk management. The Council's Risk Appetite was unchanged throughout 2021/22 and 2022/23.

The Corporate Strategic Risk Register (CSRR) is clearly set out, with a risk owner, concise description and key controls to manage the risk. The Council's shift to new ways of working (resulting from COVID-19) has identified a number of opportunities to refine and improve the way the Council delivers its services, for example with more staff working from home there will also be potential opportunities to rationalize office space and potentially share space with other partner organisations and indeed the private sector. There may also maybe opportunities to work with other partners under the government's One Public Estate agenda. The Council's risk management arrangements are detailed within its Risk Management Framework. This was reviewed and updated during the latter part of 2021/22 with the final version being approved by Audit Committee in July 2023. Council wide and Directorate scorecards capture in one document the key performance and risk information. Heads of Services present their scorecards to Senior Management Team (SMT) quarterly which ensures that there is appropriate peer scrutiny on discussions around performance and risk. The April 2023 Annual Risk management report (reviewed by the Audit Committee) provided assurance that the Council's current Risk Management arrangements are robust, responsive and effective. It is important that, these opportunities are captured, so change can be embedded and monitored going froward. There are 15 risks on the Quarter 4 (2022/23) corporate risk register, 5 high risks and 10 medium risks which are aligned to Council Plan priorities. All risks are owned by a Director which reinforces accountability for risk. As a result of new risk areas, the causes of risk have been reviewed and refreshed. The Council has continued its work on improving risk management at a directorate level, the pattern of reducing assessed risk has broadly continued. This also reflects the increasing grasp on the key risks that need to be managed at a strategic level.

The CSRR quarterly performance monitoring report is formally reviewed at the Policy and Resources Committee, with the meeting providing appropriate challenge on the CSRR report. There is adequate detail for each performance measure with clear commentary highlighting actions to manage delivery of performance targets.

The Council has appropriate Internal Audit arrangements in place. Internal Audit services are provided by Mid Kent Audit Partnership (MKAP) which works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each Council supervises the service under a collaboration agreement. The Head of Internal Audit's Annual report is presented annually to Audit Committee (2022/23 report at the July 2023 meeting).

MKAP has experienced significant turnover of staff throughout the financial year, including the appointment of an interim Head of Audit and an interim Deputy Head of Audit for part of the year. The overall opinion regarding the Council's governance, risk management and internal control arrangements was that they were satisfactory (reasonable assurance) resulting in an overall moderate risk assessment. Corporate Directors and Heads of Service completed assurance statements to confirm that key elements of the control framework were in place during the year in their areas of responsibility. They were also asked to identify areas where control weaknesses had resulted in a significant issue arising for the department. The audit coverage during 2022/23 highlighted there were no internal audits completed during 2022/23 which indicated a 'significant' risk to the Council and Internal Audit did not issue any "No Assurance" audit opinions during the year. Performance against the annual audit plan is regularly reported to Audit Committee. The percentage of audits that were completed, during the course of the year, against the number of audits in the original plan was 50% with 8 out of 16 planned audits being completed. We have made an improvement recommendation relating to the risk of delivery of internal audit plan enabling ability to inform future Opinions on Page 19.

Governance (continued)

Risk management and internal controls (cont.)

The 2022/23 Annual Internal Audit report also makes reference to Internal Audit's Quality Assurance and Improvement Programme, which ensures work is compliant with Public Sector Internal Audit Standards (PSIAS). The professional responsibilities for Internal Auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland. Public Sector Internal Audit Standards (PSIAS) are based on the international standards. The Standards require the Head of Internal Audit to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of Internal Audit's conformance with the Standards. The QAIP must include both internal and external assessments. External assessments must be completed at least every five years. Internal assessments must include ongoing monitoring of the performance of the Internal Audit activity; and periodic self-assessments.

The Annual Internal Audit report highlighted due to under delivery of planned internal audit reviews undertaken by MKAP in 2022/23 the Council placed some reliance upon a number of 'other assurance providers' and these are summarised below:

- Cyber Health Check: - Zurich Resilience Solutions conducted a Cybersecurity Health Check of the Mid Kent Shared IT Service: 'Public Services Network Code of Connections Internal Security Report and an External Security Report'. The Council was graded as 'Good' and the organisations cyber maturity is better than 80% of other council's in the UK which have been assessed. There were several recommendations made that have been incorporated into an action plan which is being reviewed by the Council IT team and Internal Audit.
- COVID-19 Business Grant assurance schemes: post payment assurance work following the completion of the Covid-19 business grant schemes has been signed off by the Department for Business, Energy and Industrial Strategy (BEIS) and checked and verified by the National Audit Office (NAO), who concluded that "the evidence submitted by the Council has followed an appropriate and robust process in completing the minimum assurance checks when awarding and paying a grant".

2022/23 Annual Governance Statement (AGS)

When preparing its 2022/23 AGS, the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance. Our review highlighted the appropriateness of the Councils governance framework including its system of internal control, this included review of minutes of the Audit Committee, the Policy and Resources Committee and Council to ensure that periodic monitoring and reviews are being reported appropriately and governance issues are addressed; assessment of the Audit Committee arrangements against the 2018 CIPFA Guidance for Audit Committees in Local Authorities and the Police; review of the Council's arrangements against the CIPFA Statements on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit. This provided assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2022/23 year. This was corroborated by our 2022/23 financial statements audit and our formal review of the 2022-23 AGS.

The Council seeks to engender an organisational culture that embraces the highest standards of conduct and accountability. Anti-fraud and corruption polices are kept under close review. The Council has a Whistleblowing policy and a Speak Up statement, which complements the Whistleblowing policy and encourages individuals to raise issues of concern in a safe environment. The Council has not been subject to any material frauds in year. The Council also subscribes to Protect (formerly Public Concern at Work), who provide an independent confidential service where employees can report issues where they do not wish to use the internal processes.

Internal Audit investigate any alleged fraud. The Council's counter fraud and anti-corruption arrangements are in accordance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption 2014. CIPFA carried out a comprehensive External Quality Assessment (EQA) in May 2020 which confirmed that MKAP was in full conformance with the Standards and the CIPFA Local Government Application Note (LGAN). The Standards requires an EQA to be carried out at least once every five years but does not stipulate specific time intervals for Internal Quality Self-Assessments (ISA) in the intervening period.

Governance (continued)

Informed decision making including the Audit Committee

Since May 2022, the Council has operated a 'Committee System' form of governance. This means that decisions are made by Full Council or delegated to Committees, Subcommittees and Officers. Full Council is the meeting of all 47 Councillors and Full Council is ultimately responsible for the exercise of all functions and certain matters are expressly reserved to be taken by a meeting of the Full Council. The work of the Council's committees is governed by the constitution. The constitution is regularly reviewed and updated, most recently in May 2022. The constitution is shared with all staff and elected members on joining and is openly available on the Council's website. The Council's constitution appropriately sets out how the Council operates and how decisions are made. Review of Audit Committee and other committee minutes indicates that key strategic decisions are subject to appropriate challenge and are supported by detailed papers. Senior officers are open to conversations during committee meetings. Senior officers attend to present their own area items and to field any questions.

We have not seen evidence of discussions not being open. The members of the Audit Committee have a good mix of experience and expertise. The Committee is well attended with minimal absences.

Council business is conducted in public unless legislation deems it appropriate for it to be considered in private. Key decisions of officers and members are published on the Council's website.

The Council carries out a wide range of public consultation. The Council consulted stakeholders on their draft budget for 2022/23. The communication and engagement plan included a dedicated webpage and media release; communication to members and staff; communication with key stakeholders; posts on the internet; intranet and use of social media. The Council has a Consultation Policy that sets out set out the Council's commitment to effective and efficient public consultation and sets the expectation that this commitment will be consistently applied, particularly in relation to the Council's key decisions. The Council consult with residents, businesses, partner bodies and other stakeholders and use the results of the consultation to inform its decision-making processes, to develop and refine its policies, and to drive improvement in the services for which it is responsible. The Council should continue to adopt these engagement activities which have worked effectively during the pandemic.

The Council's performance against a selection of key governance metrics is set out in the table below, which highlights the Council has appropriate governance arrangements in place in relation to risk management.

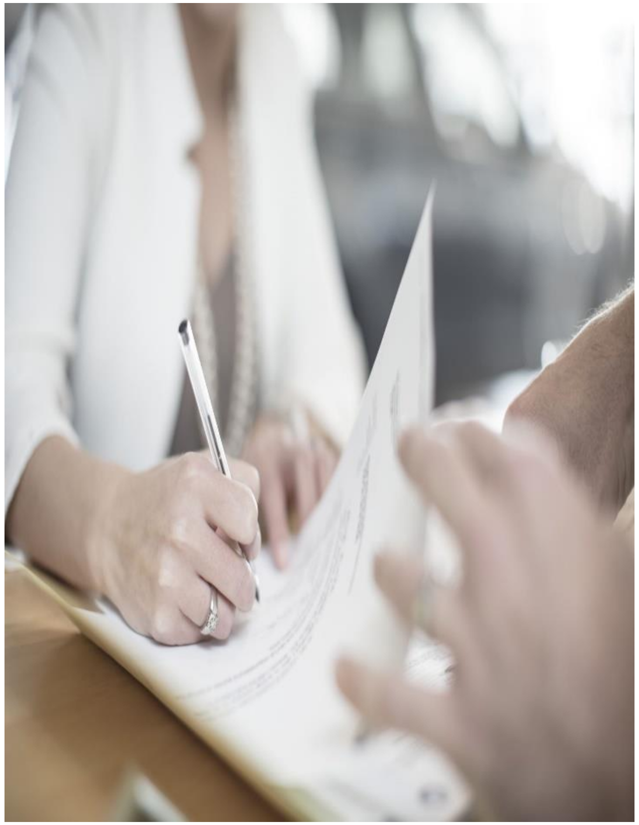


Table 3	2022/23	2021/22
Annual Governance Statement (control deficiencies)	Moderate	Moderate
Head of Internal Audit opinion	Reasonable	Reasonable

Governance (continued)

Standards and behaviours

The Council has a constitution which details how it will communicate to its staff what behaviours are expected of them.

The AGS sets out that the Council has approved and adopted a code of corporate governance, which is consistent with the principles of the International Framework: Good Governance in the Public Sector. To ensure all statutory requirements have been met the statement has been produced in accordance with the CIPFA Delivering Good Governance Framework 2016.

The AGS is approved by the Audit Committee, and in developing its 2022/23 AGS, the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance. There are appropriate arrangements relating to the Council governance framework including its system of internal control. Minutes of Audit Committee and Council committees' detail periodic monitoring and reviews are being reported appropriately and governance issues are addressed. The overall opinion for 2022/23 of the Head of Internal Audit includes confirmation the Council Audit Committee arrangements comply with the 2018 CIPFA Guidance for Audit Committees in Local Authorities and the Police This provided good assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2022/23 year. This was corroborated by our 2022/23 financial statements audit and review of the 2022/23 AGS.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council’s governance arrangements for ensuring that it made informed decisions and properly managed its risks, and we have identified one improvement recommendation which is summarised on page 19.

Improvement recommendation

Improvement Recommendation 2	The Council should ensure appropriate skilled resource is in place to deliver the agreed internal audit plan to manage the risk of delivery of internal audit plan enabling ability to inform future overall opinion statements.
Improvement opportunity identified	Under delivery of internal audit plan, which is developed to provide risk assurance across key areas of the Council, may compromise the ability to provide adequate assurance opinion for Council's overall control environment.
Summary findings	Mid Kent Audit Partnership has experienced significant turnover of staff throughout the financial year, including the appointment of an interim Head of Audit and an interim Deputy Head of Audit for part of the year. Performance against the annual audit plan is regularly reported to Audit Committee. The percentage of audits that were completed, during the course of the year, against the number of audits in the original plan was 50% with 8 out of 16 planned audits being completed.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	Mid Kent Audit Partnership appointed a new Head of Internal Audit in December 2022, and a review of processes, procedures and audit plans has been her primary focus since being in post. Despite the reduction in completed internal audits the council received reasonable assurance on our internal systems and controls and so we are working with the Head of Internal Audit to rationalise the internal audit plan for future years to ensure that the appropriate level of audit is undertaken. Whilst carrying vacancies, the partnership has engaged an external internal audit firm to support the work of the in-house team and this position will continue whilst the recruitment market remains a challenge.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

We considered how the Council:

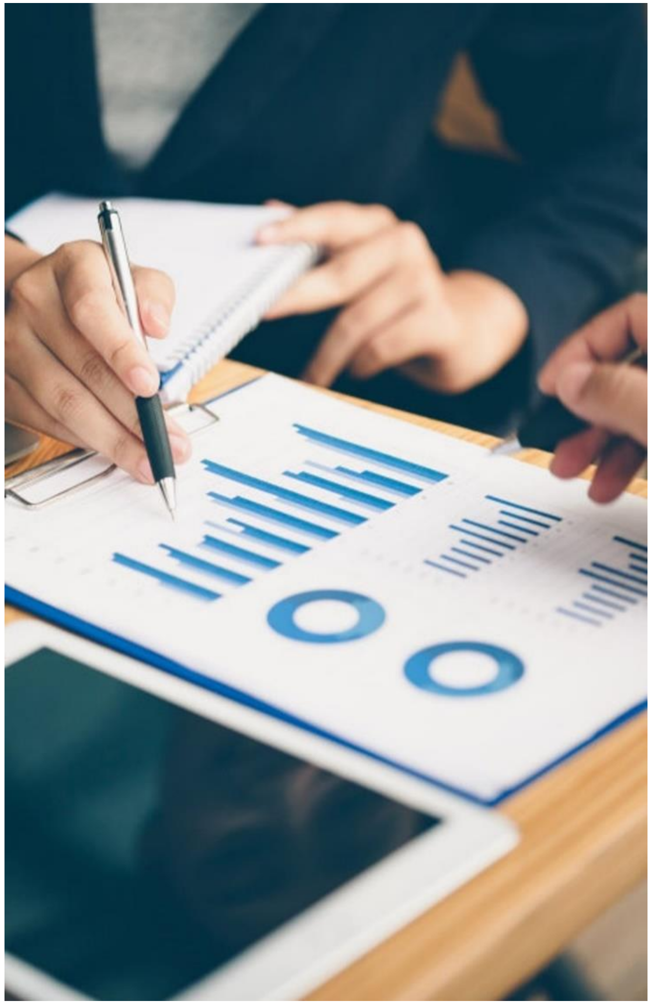
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Assessing performance and identifying improvement

The Council's performance against the Council Plan is reported on a bi-annual basis to the Policy and Resources Committee. The performance report highlights performance for 18 monthly and 13 quarterly key performance indicators (KPIs). The report brings together wider information, key facts and intelligence to explain how the Council is working and performing, including timelines and case studies to demonstrate the impact on residents and communities. We are satisfied the report provides an adequate summarised and integrated performance, finance and risk reporting position in a clear and transparent manner. The Quarter 4 (2022/23) performance report highlighted 2 (7%) indicators were categorised as red risk, as follows - Audit recommendations implemented (year end value 77% target 95%) and Number of long-term empty homes brought back into use which has been deleted as a KPI going forward. The quarter 4 report evidenced adequate management actions to address were agreed. In relation to financial monitoring, we are satisfied sufficient detail is included to understand budget variances.

A Local Government Association (LGA) Peer Review report in March 2023 highlighted the Council "benefits from recognised and visible leadership from both the leader and the chief executive. The professionalism and commitment of the workforce, in particular the directors and heads of service, are an asset to the organisation, with officers showing high levels of dedication and motivation to serve the organisation and be effective leaders in their organisation and place."

The Council has partnerships in place, with the Council described by the LGA as "an enthusiastic partner", and "with members that genuinely want to make a difference for local people". The Council work on the cost-of-living crisis was highlighted (via the LGA peer review) by partners in the voluntary and community sector (VCS) as an example of where the Council was appropriately responding to new and emerging needs in their community. VCS partners are keen to be part of more formal arrangements with the Council and expressed an appetite to build on the existing positive relationships and work more collaboratively with the council. A number of key recommendations were raised as part of the LGA Review, and the Council has put in place an improvement programme to ensure these are tackled appropriately over the coming weeks and months.



Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement (continued)

Whilst we are satisfied the Council use recommendations resulting from external inspections and has a track record of implementing them, we have made an improvement recommendation on page 23 relating to the Council ensuring it implements the action plan to address the LGA Review recommendations.

Partnership working

The Council's Constitution sets out how it engages with stakeholders and partners through joint working arrangements, partnership boards and annual appointments to external organisations.

The Council is one of a number of organisations - including major public bodies (such as: the police, Health Agencies, education and the Fire and Rescue service), local businesses and the voluntary and community sector working in partnerships for the local health agenda, community safety and the voluntary groups.

The Council has a wholly owned Housing company which has been included in the 2023/24 budget - in October 2020 Cabinet agreed to establish Swale Rainbow Homes Ltd. The outline business case envisaged the Council providing up to £23m of funding through loans to support the delivery of new homes. The exact arrangements for the drawdown of this funding will follow the detailed planning and procurement phases. The cost of the borrowing will be wholly met by the company. Because the company is wholly owned its accounts are incorporated into those of the Council.

The work of partnerships is fed back to and overseen by Full Council in order to maintain overall decision-making responsibility for matters affecting the Council.

The Council has appropriate oversight (using the 4 area committees (Eastern, Sheppey, Sittingbourne and Western areas) reporting to Full Council) arrangements in place to monitor whether significant partnerships are meeting their stated objectives. There is regular reporting to Full Council and also several sub committees to oversee work of significant partnerships.

Improving economy, efficiency and effectiveness (continued)

Procurement

The Council has appropriate contract management and procurement procedures in place, the Council has dedicated in house procurement and contract management teams. Discussions with senior officers highlighted in 2022/23 there were no significant contract management or significant performance issues reported in year for service providers or sub-contractors.

During 2022/23 appropriate capital programme oversight was undertaken by the Policy and Resources Committee, with reports considered on a quarterly basis.

The 2022/23 capital outturn presented to policy and resources committee in July 2023 shows slippage and the general fund has projected net underspend of £7.262 million. Actual expenditure in 2022/23 was £6.967 million which was 49% of the budget. The explanations for the significant capital variances and rollovers have been discussed earlier in the Report, and in most cases underspends have been rolled over to future years.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's improving economy, efficiency and effectiveness arrangements. We have identified one improvement recommendation relating to the implementation of recommended actions resulting from the March 2023 LGA Peer review.

Improvement recommendations

Improvement Recommendation 3	The Council should ensure the recommendations arising from the LGA Peer Review and the resulting action plan are implemented.
Improvement opportunity identified	The LGA peer review highlighted some areas for improvement which assist the Council to manage how the organisation engages with the wider community partners and business sector taking account of the staff resources available.
Summary findings	The Local Government Association (LGA) Peer Review report in March 2023 highlighted 10 key recommendations which were agreed by the Council and an action plan has been developed to implement the recommendations.
Criteria impacted	⚙ Economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Policy and Resources Committee in October 2023 agreed the action plan to deliver the recommendations made by the peer review. The action plan is published on the Council's Website Council - Peer Review (swale.gov.uk). Delivery of the plan will be reported to Policy and Resources Committee.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should report the achievement or not of savings built into the annual budget.	Improvement	April 2023	Management do not believe that creating an additional reporting schedule will increase the transparency around the delivery of savings. The budget has been amended to reflect the savings that have been made and so the regular budget monitoring reports will identify any variance to this position and will be reported accordingly. The creation of additional reporting is a waste of scarce resources and will not improve the reporting of actual savings against those identified as that is what our budget monitoring reports are already doing. Report on savings – as responded to the original recommendation the savings form part of service budgets that are regularly reported to members. Where targets are not being met by more than our variance reporting threshold then the report would include this information. The recommendation is being considered as part of our ongoing service improvement and if there is value to including further details on the savings then we will of course do so.	In Progress	Improvement recommendation included in 2022/23 AAR.
2	Set out clearly in the budget papers, the key assumptions such as general inflationary increases and incorporate as appropriate sensitivity analysis for key assumptions demonstrating to members the impact should outcomes differ from key assumptions.	Improvement	April 2023	Inflation assumptions are included in the budget build spreadsheet reports, and this will continue for future budget rounds. We will also include an explanation of the inflation assumptions in the covering reports for the next budget round. Inflation assumptions – this will be included in the MTFP that is being drafted for 2024/25.	Yes	N/A
3	The Council needs to prioritise urgently the identification and risk assessed deliverability of a medium-term savings plan to protect the delivery of future services, maintain adequate reserves and ensure its financial sustainability.	Improvement	April 2023	The council is aware of the need to produce a savings plan to accompany the budget for 2024/25 and this will form part of the reporting for the next budget round. Savings – the identification of savings to meet the budget gap is foremost in the discussions for the preparation of the 2024/25 budget round. Strategic plans to meet the savings will be included in the MTFP.	Yes	N/A

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	The Council should consider CIPFA's recommendation that the Audit Committee includes two co-opted independent members.	Improvement	April 2023	Management will include the proposal of independent members for the audit committee to the new council following the elections in May. Independent members on audit committee – this was discussed by audit committee and this recommendation was refused.	Not yet	To be considered further by the new Audit Committee
5	The Council should determine a review of its governance arrangements in respect of its oversight of the subsidiary company at an appropriate interval depending on the pace of increased activity of its company.	Improvement	April 2023	The Council has a shareholder panel that is in place to provide oversight of the council's subsidiary company. The regularity of meetings of this group will be reviewed in line with the pace of activity of the company as planned. Review level of governance for subsidiary company – remains the same on this as progress on the planned development is slow as we await planning decisions. The new shareholder panel (change of members due to the election) has had a training session and meetings will be arranged in line with decisions required and oversight of the project as it progresses.	Yes	N/A
6	Review the topology of the website and consider removing content that is no longer relevant.	Improvement	April 2023	The topology of the Council website content will be reviewed to enable most up to date and useful information to be more readily available. Website review – this is an ongoing project. Services have been tasked with reviewing documents that are on the website. The specific examples raised by the audit team were removed.	Yes	N/A

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We issued an unqualified opinion on the Council's financial statements on 1 December 2023.

The full opinion is included in the Council's Annual Report for 2022/23, which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

Opinion on the financial statements

Timescale for the audit of the financial statements

- The Audit Plan was issued to the Audit and Committee on 17 April 2023.
- Our audit work was completed remotely during August - November 2023.
- The Council provided draft financial statements in July 2023 line with the national timetable
- The Council team worked constructively with the audit team to ensure that audit evidence requested were provided on time and of sufficient quality. There was clear and open communication between the audit team and the Council officers which ensured that the audit process went smoothly.
- The opinion on the financial statements was issued on 1 December 2023.

Findings from the audit of the financial statements

- We identified three unadjusted misstatements from our audit work, which included netting off an overdrawn bank balance in the Balance Sheet and a reconciling balance between the accounts and the Council's fixed asset register.
- We also identified a small number of disclosure improvements to help improve the transparency of the overall accounts.
- We also identified a couple of recommendations to help improve the Council's financial processes, around the completeness of year end accruals, and treatment of assets included on the asset register with a nil carrying value.

More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Audit Committee on 23 October 2023. Requests for this Audit Findings Report should be directed to the Council.

Other reporting requirements

Other opinion/key findings

We are required to report on a number of matters by exception in a number of areas:

- if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,
- if we have applied any of our statutory powers or duties.
- where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.

We have nothing to report on these matters.

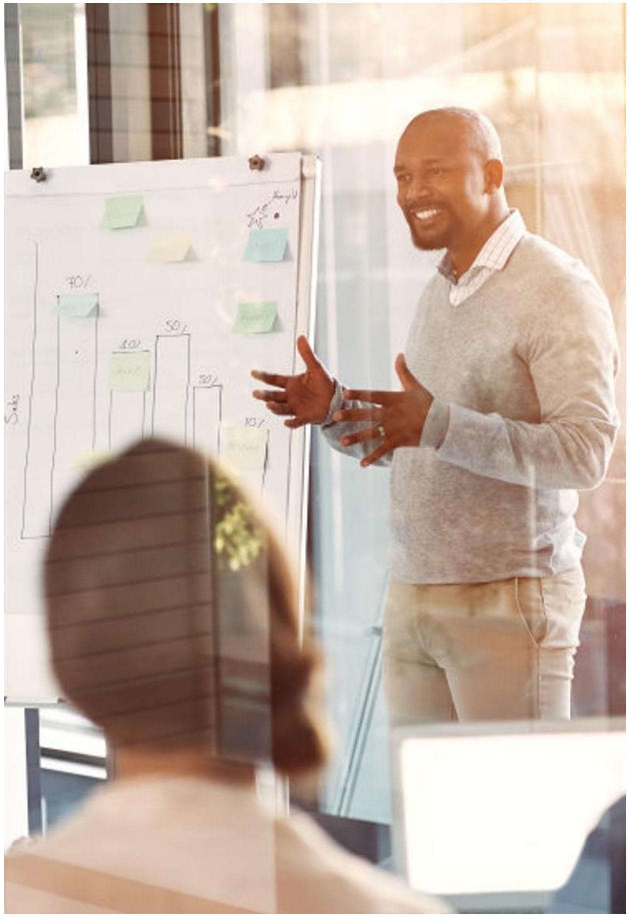
Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 23 October 2023

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Swale Borough Council does not exceed the threshold.



Appendices

Appendix A:
Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

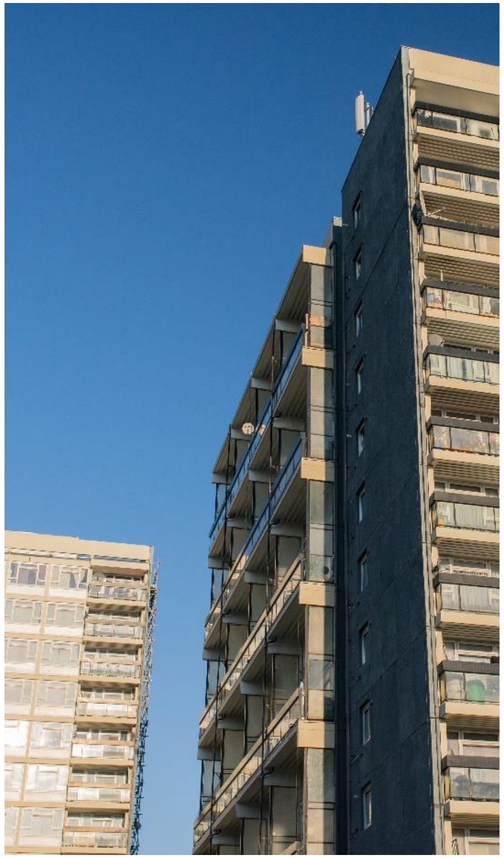
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:

An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations".	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	14, 19 & 23

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Audit Committee Meeting	
Meeting Date	24 January 2024
Report Title	Final Audit Findings Report 2022/23
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement
Classification	Open
Recommendations	Members are asked to: 1. Note the updated external auditor's Audit Findings Report (Appendix I);

1. Purpose of Report and Executive Summary

1.1 This report seeks that the Audit Committee note the final external auditor's Audit Findings Report 2022/23.

2. Background

Audit Findings Report

2.1 Further to the audit opinion report considered by this committee on 23 October, which was subject to final audit completion, a further audit adjustment was identified by our external auditors, as detailed on page 28 of the final Audit Findings Report.

2.2 The overall impact of this was nil, and the accounts have not been adjusted, as stated in the report.

2.3 The report, included as Appendix I, is the final audit opinion for 2022-23 and is published on our website.

3. Proposals

3.1 The Audit Finding Report for the year ended 31 March 2023 is attached as Appendix I.

3.2 Committee are asked to note the report and its findings.

4. Alternative Options

4.1 None

5. Consultation Undertaken or Proposed

5.1 Consultation has taken place with Grant Thornton throughout this process.

6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The External Auditor's opinion is that the Council's accounting statements give a true and fair view of the financial position of the Council as at 31 March 2023 and its income and expenditure for the year then ended.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations as amended by the Accounts and Audit (Amendment) Regulations 2021.
Crime and Disorder	No direct issues
Environment and Climate/ Ecological Emergency	No direct issues
Health and Wellbeing	No direct issues
Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

7. Appendices

7.1 The following documents are to be published with this report and form part of the report:

7.1.1 Appendix I: Audit Findings Report

8. Background Papers

8.1 Detailed working papers are held in the Finance Department.

The Audit Findings Report for Swale Borough Council

Year ended 31 March 2023

Final report – November 2023

Contents

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This Draft Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.

Name: Matt Dean

For Grant Thornton UK LLP

Date: 1st December 2023

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Swale Borough Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed remotely from August to November 2023. Our findings are summarised on pages 6 to 18. We have not identified any adjustments to the Council’s reporting financial position in the draft accounts. We have identified disclosure adjustments to the financial statements that are detailed in Appendix C. We have also raised two recommendations for management as a result of our audit work. These are set out in Appendix B.

Our work is complete.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your council and the financial statements we have audited.

Our financial statements audit report opinion was unmodified.

Our work on the Council’s value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council’s arrangements in our Auditor’s Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E to this report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed our work under the Code and certified the completion of the audit when we gave our audit opinion on 1 December 2023.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to enable us to get to the finalisation of the audit.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

We are not aware of any similar ventures that the Council has entered into or planning to enter into, but we will consider any potential risk to this in our VFM work.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with the management and will be discussed with the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

No changes have been made to the approach set out in the Audit Plan issued in April 2023.

Conclusion

We have completed our audit of your financial statements. We issued an unqualified audit opinion on 1 December 2023.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table our determination of materiality for Swale Borough Council.

	Planning Amount (£)	Revised Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,550,000	1,520,000	This has been calculated based on 1.95% of your gross expenditure (cost of services) in the draft accounts.
Performance materiality	1,162,500	1,140,000	This has been calculated as 75% of materiality for the financial statements, based on our assessment of the likelihood of a material misstatement.
Trivial matters	77,500	76,000	This has been calculated as 5% of headline materiality.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Swale Borough Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Swale Borough Council.	During the audit, we have undertaken the following work: • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams Our completeness testing, we identified several subsequent invoices raised above the de-minimus level in 2023-24 that relate to 2022-23. Management has not accrued for these balances resulting in an understatement of Income for 2022-23.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk, we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Valuation of land and buildings and investment properties You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations. For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	To address this risk, we: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assessed how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • Tested revaluations made during the year to see if they are input correctly into the Authority's asset register; • Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • For all assets not formally revalued, evaluated the judgement made by management or others in determination of current value of these assets. Our audit work has not identified any issues in respect of Valuation of land and buildings and investment properties.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation. We will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit.	To address this risk, we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our work has not identified any significant issues in the valuation of pension fund net liability.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings - £76.4m **Investment Properties - £4.1m** **Heritage Assets - £2.3m**	The Council's accounting policy for non-current assets is at Note 2n. The policy covers accounting and valuation issues. The policies for heritage and investment assets are 2h and 2j respectively. Management has asked the valuer to consider the year end value of non-revalued properties and the potential valuation change in the assets revalued as 31 March 2023, applying industry average indices and determining whether there has been a material change in the total value of these properties. The valuer's assessment of assets not revalued has identified no material change to the property's value.	We identified a significant audit risk in respect of the valuation of land and buildings. In the course of our work, we have performed an assessment of management's expert, checked the completeness and accuracy of the underlying information used to determine the estimate as well as considering the reasonableness of movements in the valuations and the assumptions used. The adequacy of disclosure of the estimate in the financial statements has also been considered and is deemed reasonable. We have disclosed detailed work performed regarding PPE on page 9.	● **Blue**

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £13.9 million

The Council's net pension liability at 31 March 2023 is **£13.9 million** (PY **£62.6 million**) comprising the Kent County Council Local Government Pension Scheme.

The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at March 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

We considered the following areas:

- We have assessed the Council's actuary, Barnett Waddingham LLP, to be competent, capable and objective.
- We have assessed the actuary's approach taken, and detailed work carried out to confirm reasonableness of approach.
- We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.80%	4.80% to 4.85%	●
Pension increase rate	2.95%	2.65% to 2.95%	●
Salary growth	3.95%	1% above CPI, hence 3.90%	●
Life expectancy – Males currently aged 45/65	21.1	19.5-22.1	●
Life expectancy – Females currently aged 45/65	23.5	22.9-24.5	●

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.
- We confirmed adequacy of disclosure of the estimate in the financial statements.

● Light Purple

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum revenue provision - £1.028m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year-end MRP charge was £1.028m a net decrease of £0.22m from 2021-22 (£1.050m).	We have carried out the following work: • Assessed that the MRP has been calculated in line with the statutory guidance; • Confirmed that the Council's policy on MRP complies with statutory guidance; and • Assessed there are no changes to the authority's policy on MRP in comparison with 2021-2022. We consider management's estimate to be reasonable.	● Light Purple

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Agresso	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	No issues noted

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Significant events or transactions that occurred during the year.	• Not applicable – no occurrences	**Auditor view** Not applicable **Management response** Not applicable
Business Conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement.	• Not applicable – no occurrences	**Auditor view** Not applicable **Management response** Not applicable
Prior year adjustments identified	**Note 43** This note discloses the 2021- 22 figures that have been restated within the category breakdown, but the total remains the same.	**Auditor view** Management had erroneously categorized within the category breakdown with incorrect expiration dates. The note shows restated amounts of periods 'Not later than 1 year', 'Later than 1 year and not later than 5 years', and 'Later than 5 years' which has resulted in disclosure adjustments of £293k, £168, and £31,478, respectively. We are satisfied this has been appropriately disclosed and documented in the final Accounts, and satisfied this does not impact the wider Accounts.
Other matters that are significant to the oversight of the financial reporting process.	• Not applicable – no occurrences	**Auditor view** Not applicable **Management response** Not applicable

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation was agreed by the Director of Resources and signed on 30 November 2023.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted, and requests sent. We have received direct confirmation for all balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided.

2. Financial Statements: other communication requirements

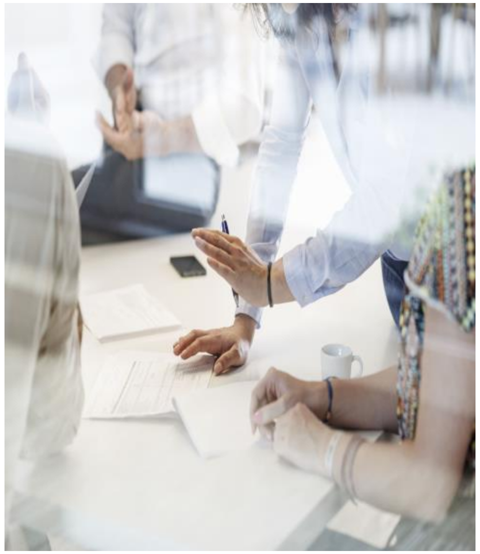
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No material inconsistencies have been identified. We have issued an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold specified by the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Swale Borough Council in the audit report, as detailed in Appendix E due to incomplete VFM work.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and action plan

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E to this report. We expect to issue our Auditor's Annual Report no later than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date, we have not identified any significant weaknesses from our initial procedures but will provide a detailed update in our Auditor's Annual Report, which we are planning to share later in the calendar year.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit (Subsidy) Assurance Process	27,600	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,600 in comparison to the total fee for the audit of £72,620 and in particular relative to Grant Thornton UK LLP’s turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Incomplete Accruals of Income** The council has a de-minimus level of £10,000 however during our Income/Debtors completeness testing, we identified several subsequent invoices raised above the de-minimus level in 2023-24 that relate to 2022-23. Management has not accrued for these balances resulting in an understatement of Income for 2022-23.	Management should ensure that sufficient processes are in place to accrue for significant items of income that have yet to be received at year-end to ensure the completeness of the income balance in the Accounts. **Management response** We will review the processes for income accruals to ensure that the income is accounted for in the correct reporting period for the 2023/24 statement of accounts.
● Medium	**Fully depreciated assets still in use** As part of our depreciation testing work, we identified fully depreciated vehicle, plant, and equipment assets of £3.4m that were still in use by the Council. Management has not reviewed the useful economic life of these assets resulting in the risk of misstatement of the depreciation balance.	Management will need to: ▪ Assess the fully depreciated assets as at 1 April 2022 and the impact towards depreciation charge in 2022-23 and the closing NBV if any of the assets are still in use during the year 2022-23, or if not in use, consideration of whether it should be written off as at 31 Match 2023. • For fully depreciated assets as at March 2023, undertake a frequent review of the assets with nil NBV during the year 2023-24 and moving forward to either write-off the assets or re-life them if they are still operational assets and depreciate accordingly. **Management response** TBC

Controls

● High – Significant effect on financial statements

● Medium – Limited Effect on financial statements

● Low – Best practice

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management

Impact of adjusted misstatements

There were no audit identified adjusted misstatements in the financial statements

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure errors	Auditor recommendations	**Adjusted?**
Disclosure and Presentation	Our audit identified some typographical and disclosure errors which were brought to management's attention. These errors were all minor and had no impact on the statement of financial position or statement of comprehensive income. They were of all a minor nature Management response: Management agreed to amend.	Yes
Narrative Report	The financial statements and other information should be stand alone and all required disclosures should be included. The narrative report should include a commentary on the Council's performance. The Council addressed this by including a hyperlink to information held on its website. A summary of Key Performance Indicators to help to focus on key priorities and those aspect that need to be monitored more closely was omitted . Management response: Not adjusted as reported last year the council publishes performance data on a regular basis and the link within the accounts points the reader to a more comprehensive report on the council's performance. We believe that signposting the readers to the most appropriate source of data aids the understanding and decluttering of the statement of accounts	No

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure errors	Auditor recommendations	**Adjusted?**
Note 10 Expenditure and income analysed by nature	We noted Benefit payments and Employee costs of £32,123k and £14,647k respectfully were incorrect and should be £31,429k and £15,970k respectfully. Management response: Management agreed to amend.	Yes
Note 23 Pension reserve	From our review, we noted that note 23 lacked detailed disclosure in line with the CIPFA code. Management response: Management agreed to amend.	Yes
Note 32 Capital Expenditure and Capital Financing	From our review, we noted the Total capital investment should be split by type and not bulk. Management response: Management agreed to amend.	Yes
Note 34 Short term creditor	From our review of short-term creditors, we noted that Receipt in advance should be shown separately and not added to creditors. Management response: Management agreed to amend.	Yes
Note 47 Collection Fund	From our work, we noted the disclosure of the Council acting as agent was omitted. Management response: The draft accounts includes the disclosure that the billing authority is acting as agent to the preceptors and government – The introduction to the collection fund state that Swale is the billing authority so I do not believe that this is a valid adjustment and should be removed from the report	No

C. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Note 24 Property, plant and equipment (PPE) assets As part of our PPE work, we noted £1,101k difference in reconciling the fixed asset register, financial statement, and valuation summary report.					Not material
DR PPE		1,101			
CR Revaluation Reserve		(1,101)			
Note 9 – Defined Benefit Pension Scheme (g) As part of our pension work, we noted £100k difference in reconciling the Fair value of Fund assets to the actuary report and the financial statement					Not material
DR Pension Liability		100			
CR Pension Reserve		(100)			
Overall impact	£0	£0	£0		

C. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Note 41 Cash and Cash Equivalents As part of our Cash and cash equivalent work, we noted a cash overdraft of £1,384k was incorrectly netted off against the Money market funds of £6,550k.					We believe the impact of this not material to the Accounts, and adequate disclosure is made within the Note of the position in this area.
DR Cash and cash equivalent		1,384			
CR Current liabilities		(1,384)			
Overall impact	£0	£0	£0		

D. Fees and non-audit services

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Council Audit	£72,620	TBC
Total audit fees (excluding VAT)	£72,620	TBC

Details regarding the proposed fee for provision of non-audit services is as below.

Non-audit fees for other services	Proposed fee	Final fee
Audit-related services: Certification of Housing Benefit Claim	£27,600	TBC
Total non-audit fees (excluding VAT)	£27,600	TBC

D. Fees and non-audit services

Audit fees – detailed analysis

The table below provides a reconciliation between the Scale Fee agreed by PSAA and the Fee quoted on the previous page:

	Proposed fee 2022/23
Scale fee published by PSAA	£54,270
Ongoing increases to scale fee first identified in 2019/20	
Audit fee 2019/20	£54,270
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,350
Proposed increase to agreed 2019/20 fee	£15,350
New issues for 2022/23	
Introduction of ISA 315	£3,000
Total audit fees (excluding VAT)	£72,620

E. Audit letter in respect of delayed VFM work

Dear Councillor Simon Clark,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than February 2024.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Matt Dean

Key Audit Partner

Grant Thornton

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