

Agenda

Audit Committee Meeting

Date: Wednesday, 17 July 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), Charles Gibson, Angela Harrison, Tara Noe, Richard Palmer, Terry Thompson 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 meetings held on 4 April 2024 (Minute Nos. 810 - 816) and [15 May 2024](#) (Minute Nos. 15 – 16) 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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|----|--------------------------------------------------|---------|
| 5. | Annual Internal Audit Report and opinion 2023/24 | 5 - 34 |
| 6. | Treasury Management 2023/24 Outturn Report | 35 - 46 |

Issued on Tuesday, 9 July 2024

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

Audit Committee Meeting	
Meeting Date	17 July 2024
Report Title	Internal Audit Annual Report and Opinion 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	<ol style="list-style-type: none"> 1. That the Audit Committee notes the interim Head of Audit Partnership’s opinion. 2. That the Audit Committee notes the work underlying the opinion and the interim Head of Audit Partnership’s assurance of its independent completion in conformance with proper standards.

1 Purpose of Report and Executive Summary

- 1.1 This report delivers the Head of Internal Audit annual reporting directed by the Public Sector Internal Audit Standards (the “Standards”). The report includes the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This opinion feeds into the Annual Governance Statement for 2023/24.

2 Background

- 2.1 Internal audit is a compulsory service for authorities as set out by Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit as described in that Regulation is: “[to] undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance”.
- 2.2 . The Standards, in particular Standard 2450 (Overall Opinions) direct the annual report to include:
- The annual audit opinion
 - A summary of work completed that supports the opinion, and
 - A statement on conformation with Standards.
- 2.3 We have completed the work set out in the plan in full conformance with the Standards. We have also worked independently, free from undue influence of either officers or Members.

2.4 As those charged with overseeing governance, the Audit Committee must consider the Annual Internal Audit Opinion.

3 Proposals

3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2023/24. The Committee is asked to note this opinion.

3.2 The full Annual Report for 2023/24 is attached as an Appendix. This report includes a summary of all work conducted to support the opinion and affirms the independence and effectiveness of the internal audit service.

3.3 We present the opinion and associated report for noting and for Members to consider alongside their evaluation of associated year end reports into the Council's finance and governance. This report does not seek any substantive decision or action from the Council as a direct result.

4 Alternative Options Considered and Rejected

4.1 N/A

5 Consultation Undertaken or Proposed

5.1 We consult and agree with relevant Heads of Service before finishing all findings and recommendations arising from individual audit engagements. The headline messages in our report have been discussed with the Senior Management Team and have been shared to help prepare the Annual Governance Statement.

6 Implications

This report and opinion are for noting and to support consideration of other year end reporting into the Council's finances and governance. It does not propose or prescribe any specific action as a result. Therefore, this report has no specific impact in any of these areas but instead below is a general commentary on issues relevant to each heading.

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 Regulation to operate an 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 Annual Report and Opinion 2023/24

8 Background Papers

Full reports which support the audit engagements summarised in this annual report are available.

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**Internal Audit Report &
Annual Audit Opinion
2023/24**

Swale Borough Council



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Introduction

1. This is the 2023/24 Annual Report by Mid Kent Audit on the internal control environment at Swale Borough Council ('the Council'). The annual internal audit report summaries the outcomes of the reviews that have been carried out on the Council's framework of governance, risk management and internal control and is designed to assist the Council making its annual governance statement.
2. This report provides the annual head of audit opinion ('Opinion statement') and a summary of the key factors taken into consideration in arriving at the Head of Audit Opinion statement, as at 30 May 2024.

Head of Internal Audit Opinion statement

3. The Head of Audit Opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within the agreed work programme. For risks not directly examined reliance has been taken, where appropriate, from other associated sources of assurance to support the Opinion statement (an explanatory note is included at Annex A).
4. The Head of Audit Opinion statement for 2023/24 is:

Following two years of reduced capacity of the internal audit team due to significant staff changes and shortages, a partially successful recruitment has led to a period of greater stability within the team. Overall progress on the planned programme of work delivered by internal audit has improved with a greater number of audits completed in 2023/24. In addition to the results of the internal audit work concluded during the year some other sources of assurance have also been included to support the opinion. A summary of where it has been possible to place reliance on the work of other assurance providers is presented in the annual internal audit report. Utilising all these forms of assurance I can draw a positive conclusion as to the adequacy and effectiveness of Swale Borough Council's risk management, control and governance processes. In my opinion, Swale Borough Council has adequate and effective risk management, control and governance processes in place to manage the achievement of their objectives.



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Matters impacting upon the Opinion statement

5. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. Consequently, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.
6. Mid Kent Audit recognises the considerable financial challenges and the difficult decisions that the Council had to deal with during 2023/24, however, the professional and regulatory expectations on public bodies to ensure that their internal audit arrangements, including providing the annual Opinion statement, conform with the Public Sector Internal Audit Standards (PSIAS) have not changed.
7. Factors that need to be taken in to account in reaching the Opinion statement include:
 - Changes in ways of working: Have these led to gaps in the governance, risk management and control arrangements?
 - Independence of internal audit: Have any limitations in the scope of individual audit assignments resulted in it only being possible to place partial assurance on the outcome?
 - Internal audit coverage: Has any reduction in internal audit coverage compared to what was planned resulted in insufficient assurance work?

Changes in ways of working

8. The following are the main considerations which impacted upon the provision of the Opinion statement for 2023/24. These are not in any priority order and in a number of cases there is an inter-relationship between these considerations.
 - Remote working and greater use of digital forms of operation and communication has now been in place for three years following the



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rapid introduction during the pandemic. This change in ways of working is now considered normal and the adaptations are being managed as business as usual.

- The significant increase in cyber-attacks against all organisations to obtain unauthorised access to data and the consequential need for ongoing updating and vigilance in terms of security of data held.
- The introduction of the 34 hour working week at Swale Borough Council and the continuous monitoring of performance and outcomes of the organisation resulting from this change in working arrangements

Independence of internal audit

9. 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 the service under a collaboration agreement.
10. Within the Council during 2023/24 Mid Kent Audit has continued to enjoy complete and unfettered access to officers and records to complete its work. On no occasion have officers or Members sought or gained undue influence over the scope or findings of any of the work carried out.

Internal audit coverage

11. Mid Kent Audit has experienced significant turnover of staff in previous years, and this year saw the appointment of an Audit Planning Manager and an Audit Delivery Manager through promotions within the service. In addition to these promotions, an auditor and senior auditor were also recruited to the team. There are still some vacant posts within the team and further recruitment campaigns are underway to fill the remaining posts. The Head of Mid Kent Audit Partnership started in December 2022 and an assessment of the structure was undertaken to determine the maximum optimisation of the resources required to deliver the service. It is acknowledged that a significant level of local knowledge and experience of the Council was lost during previous years and the current structure has provided some stability to the service.
12. The Council's Audit Committee approved the 2023/24 Audit & Assurance Plan on 17 April 2023. The selection, prioritising and scoping of the audit reviews in this Plan was undertaken by the Head of the Audit Partnership.



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13. There has been a reduction in terms of the planned internal audit coverage for 2023/24. This has been due to the impact of the late completion of the 2022/23 planned work and the significant churn in terms of staff within Mid Kent Audit. In addition, there has been a significant investigation undertaken by the internal audit team at the request of the organisation which required a considerable resource. The knock-on effect is that a number of planned audit reviews have either been deferred or cancelled.
- As a consequence a number of the audit reviews set out in the 2023/24 Internal Audit Plan have not been completed to inform the 2023/24 Opinion Statement, however, the incomplete reviews from the previous year have been included in the 2023/24 Opinion Statement. This is a timing matter, rather than systematic of any issue in respect to the Council's governance, risk and control framework. The team at Mid Kent Audit has worked diligently at the delivering the work and this timing issue is not a reflection upon the efforts of the current team. Any outstanding audits from the 2023/24 audit plan, have been restated on the approved 2024/25 audit plan, so should reset the balance.

Arriving at the Opinion statement

Reliance on internal audit work performed

14. Audit evidence to support the Opinion statement on internal control is derived principally through completing the reviews set out within the agreed Audit Plan. The 2023/24 Audit & Assurance Plan provided for 19 reviews to be carried out. Three audits were highlighted as being unable to be delivered due to staffing constraints and transformation work affecting those service areas. These audits were Elections Management, Emergency Planning and Performance Management. The Leisure Services Contract audit was also postponed due to timing issues relating to a contract extension, leaving 15 reviews to be completed in 2023/24.
15. For the reasons explained in paragraph 13, above, only 10 of these reviews were completed in time to inform the 2023/24 Opinion statement. There are two audits from 2022/23 that were completed during this year so will be included in the Opinion statement. This means that 12 audits were completed during the year and one review is still underway (Compared to 8 completed reviews for 2022/23). These reviews are shown in the table below. There were no Critical actions raised and two high risk action which affects



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(negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority.

See table below for details of completed audits that informed the annual audit opinion.

Audit Review	Assurance rating	Number of Actions by Priority Rating			
		Critical	High	Medium	Low
Social Media	Sound		-	-	3
Public Health Funerals	Strong		-	-	1
Conservation and Heritage	Sound		-	-	1
Animal Welfare	Sound		-	2	3
Grounds Maintenance	Strong		-	-	-
Licensing Enforcement	Sound		1	4	1
Private Water Supplies	Sound		-	-	5
Learning and Development	Strong		-	-	-
Land Charges	Strong		-	-	1
Cyber Security	Sound		-	1	2
IT Disaster Recovery	Sound		1	1	2
Compliance with Computer use Policy	Sound		-	-	2

16. A summary of the Assurance and Action priority level definitions is provided in Annex B.
17. An overview of the key findings from each of the finalised reviews for which details have not been previously provided in the 2023/24 Progress Report to the Audit Committee is provided in Annex C. These finding do not indicate any significant Council-wide weaknesses in the corporate governance, risk or control framework.
18. A reconciliation to the work performed to the approved Audit & Assurance Plan for 2022/23 is provided in Annex D.
19. Where appropriate, reliance has been placed upon previous internal audit work and other work performed by Mid Kent Audit, including:



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- The unqualified 2022/23 Head of Audit Opinion and the findings of previous years' internal audit work carried out (paras 20 below refers).
 - The outcomes of the follow up work carried out to confirm control weaknesses identified by internal audit have been effectively mitigated (paras 22 - 23 below refers).
 - The outcomes of other work performed by Mid Kent Audit for the Council (para 24 below refers).
20. **Previous years' internal audit work:** The unqualified opinion Internal Audit Report for 2022/23 advised that there were no audit reviews carried out by Mid Kent Audit during the financial year where there were assurance assessments of 'Weak' or 'Poor'.
21. **Poor or Weak Assessment reviews:** For these reviews which include either Priority 1 or 2 recommendations (Actions) or an overall Poor or Weak assessment, management attend a meeting of the Audit Committee to explain in detail the action being taken in respect to the Actions. There was one outstanding action from a previous year's audit that was brought to the Audit Committee for an explanation by the Management of the service
22. **Following up Actions:** Actions are made in the audit reports to further strengthen the control environment in the area reviewed. Management provides responses as to how the risk identified is to be mitigated. Throughout the year Mid Kent Audit carried out checks to ascertain the extent to which the agreed Actions had been addressed by management and that the risk exposure identified has been mitigated.
23. During 2023/24, a revised process for following up on actions was developed within the internal audit team. All prior year's actions were followed up and there is one currently in progress. There are only 14 remaining from 2022/23. The table below also includes the number of actions from 2023/24 audits and the progress made on these to date, most of which are not due. There were no Critical actions and one High action as set out below.

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	High	Medium	Low	Total
Total actions 2022/23				
Actions agreed	1	13	15	29
Actions cleared	0	5	9	14
Actions not due	1	7	6	14
Outstanding actions 2022/23	0	1	0	1
Total actions 2023/24				
Actions agreed	1	4	15	20
Actions cleared	0	0	4	4
Actions not due	1	4	11	16
Outstanding actions 2023/24	0	0	0	0
Total Outstanding actions	0	0	0	1

- The outstanding action relates to the Website and Accessibility audit. The action was to implement a Communication Strategy for the organisation. The Communications Strategy has been drafted and sent to the Administration Group Leaders. Officers are waiting for member input before this can be concluded.

24. Outcomes of other work carried out by Mid Kent Audit:

Work was carried out on the Section 31 Grant Determination 31/6499 Biodiversity Net Gain certification. The Head of the Audit Partnership reviewed the certification completed by the council on grant spend and provided a signed assurance confirming it was in line with the guidance.

Reliance on other sources of assurance

25. For the reasons set out earlier in the report it has been necessary for 2023/24 to place some reliance upon a number of 'other assurance providers' to support the annual audit opinion and these are summarised below:
- Corporate Peer Challenge (Para 26 details)
 - Public Services Network Connection Compliance (Para 27 details)
 - Confirmation of closure of various schemes relating to the Covid 19 pandemic. (Para 28 details)



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- Positive findings from External Auditors Grant Thornton (Para 29 details)
26. The Council took part in Corporate Peer Challenge Review in 2023. The review considered the following areas:
- Local Priorities and Actions
 - Organisational and Place Leadership
 - Governance and Culture
 - Financial Planning and Management
 - Capacity for Improvement

The feedback report identified a number of recommendation that the Council could implement to improve these areas. Throughout the year, Officers and Members have worked together to implement a number of these actions to continue to improve the organisation for its residents and businesses.

27. The ICT department are regularly verified by the Cabinet Office to ensure that it's ICT systems and infrastructure are sufficiently secure and that the connection to the Public Services Network would not present an unacceptable risk to the security of the network. The organisation received a certificate of compliance to demonstrate the achievement.
28. Received sign off and thanks from various Government Departments relating to the following schemes put in place as a result of the Covid 19 pandemic and subsequent cost of living crisis.
- Council Tax Rebate scheme – Department of Levelling UP, Housing and Communities.
 - Energy Bills Support Scheme Alternative Funding – Department for Energy Security and Net Zero.
 - Alternative Fuel payment Alternative Fund – Department for Energy Security and Net Zero.
 - Local Restrictions Support Grant – Department for Business and Trade.
 - Closed Business Lockdown Payment – Department for Business and Trade.
29. Swale Borough Council's received very positive outcomes from the most recent external audit undertaken by Grant Thornton (2022/23 accounts). The External Auditors highlighted the constructive interaction between themselves and the Finance team around the audit of the financial statements and commented positively on the areas in the Value for Money audit around Financial sustainability of the organisation, Governance and Improving economy, efficiency and effectiveness. There were only three



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recommendations made and they also noted the positive implementation of actions relating to the previous year's audit.

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29. Information on Mid Kent Audit which supports the delivery of the internal audit and other work carried out in the financial year is summarised in Annex E. Overall, despite the significant staffing changes during the year, Mid Kent Audit has maintained a PSIAS compliant service and there has been no diminution in the robustness of the work performed.

Acknowledgements

30. Managers, Officers and Members are thanked for their continued support throughout the year which has assisted in the efficient delivery of the audit work.



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Annex A

Other Sources of assurance for 2023/24

The corporate governance, risk and control framework

The corporate governance, risk and control framework for the Council is dynamic and there will be changes to the processes throughout the year. The key consideration for arriving at the annual Head of Audit Opinion is the materiality of any changes in terms of possibly increasing the exposure of the Council to activities and decisions which do not conform with the approved strategies and policies.

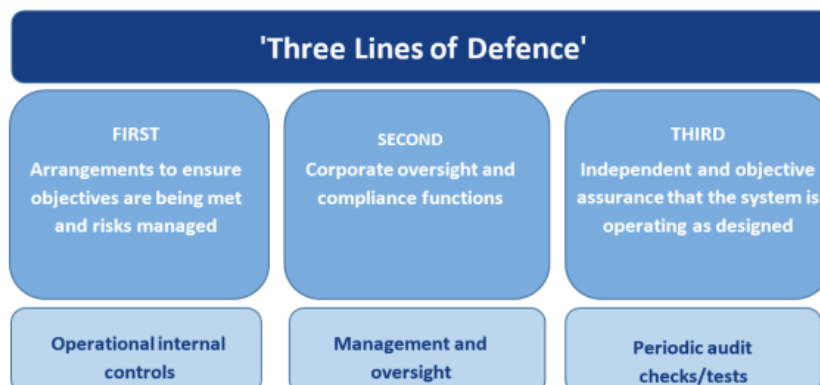
Obtaining additional sources of assurance

CIPFA provided guidance on utilising other forms of assurance to support arriving at a Head of Audit Opinion. This means that where the agreed internal audit plan of work has not been fully carried out additional assurances can be obtained from 'other assurance providers' (this being the CIPFA terminology).

Three lines of defence

The three lines of defence model, below, explains how the level of assurance that can be taken by the Head of Audit reduces if the source of assurance is from the second line of defence and reduces even further if it is from the third line of defence.

As a consequence the additional assurance utilised to assist in supporting the 2023/24 Head of Audit Opinion has only relied upon second line of defence sources of assurance (i.e. where the author is not directly involved in the day-to-day operation of the corporate governance, risk and control arrangements they are reporting upon).



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Reduction in reliance due to passage of time

Due to the dynamic nature of the corporate governance, risk and control framework for the Council the reliance which can be placed on forms of assurance reduces as time passes. This has particularly been the case over the last three financial years with all the short-notice changes that were made to respond to the business disruption due to the COVID 19 pandemic. As a consequence the additional assurance placed on work carried out prior to the start of 2023/24 has been kept to a minimum.



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Annex B

Assurance and priority level definitions

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

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Finding, Recommendation and Action Ratings

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council’s aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.



Summary of Audit Findings

Social Media

Sound

We are satisfied that the Council's social media accounts are used appropriately. The Council has comprehensive policies on social media use for both general Council staff and councillors. Controls and guidelines exist to ensure that the Council's accounts are properly set up and that access is limited to authorised staff members.

We found some areas of improvement regarding reviewing the social media policies for gaps and outdated information, and in keeping up to date records of key processes and ongoing training.

Public Health Funerals

Strong

We found that the service area adhered to s46 Public Health (Control of Diseases) Act 1984 with regards to the statutory duty of the authority to bury or cremate should no other arrangements be made. We also found that Public Health procedure notes and Policy were accurate, up-to-date and reviewed regularly.

Individual case files for each funeral were maintained in line with ICCM guidance. The records held for each funeral conducted are held on Uniform and were complete, accessible and clear.

Although two Officers attend the properties of the deceased, no formal risk assessment takes place or is retained on the case file. Risk assessments should be carried out to promote a safe system of working, protect officers and reduce the risk of a Health & Safety incident occurring.

The Council can recover all expenses incurred as a result of making funeral arrangements under s46 of the Act. Our work identified detailed documentation to evidence action had been taken to recoup public funds and noted that the service area makes use of a Genealogy company to trace relatives of the deceased where a Public Health Funeral referral has been received. This is at no cost to the Authority or the next of kin.

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Conservation and Heritage

Sound

We determined that both the Local Plan and Heritage Strategy aligned with the National Planning Policy Framework following extensive review and consultation phases. The Heritage Team has participated in the development of Local Plan policies and supplementary guidance, regularly engaging with other teams within the wider service to provide specialist heritage advice in response to planning applications and proposals. There is a system in place to track and monitor requests for advice and support made to the Heritage Team utilizing the Idox Uniform Enterprise software for advice related to formal application or pre-application enquiries. A Historic Environment Register is maintained by Kent County Council on behalf of Swale Borough Council, and the other Kent authorities, and this is managed via a Service Level Agreement that the service plans to review.

Conservation Area Appraisals and Management Plans (CAAMPs) were implemented in accordance with best practice guidelines provided by Historic England; however, internal procedural guidance was suggested to ensure consistency in their completion. Likewise, a wide variety of conservation and heritage guidance is available to members of the public on Swale Borough Council's website in accordance with best practice, though it is recommended that a review schedule be considered to help maintain the content. It was also noted that limited professional training opportunities for the Heritage Team officers have been offered to date within the service.

Animal Welfare

Sound

Controls and procedures for handling stray dogs were found to be generally well designed and operating effectively. The service has achieved this while managing recent operational changes, including reduced team resources, sourcing a new kennelling contract, and partnering with the CCTV Control Centre to facilitate an out-of-hours service. The latter arrangement was awaiting final review at the conclusion of our work.

We found that, in addition to the Stray Dog Register and website, the Service maintains an engaging and informative social media presence. This is successful in facilitating the reunification of a high proportion of dogs with their owners. Furthermore, the pro-active liaison of Animal Control Officers with kennels, rescue centres and veterinary practices is exemplary, and essential to ensuring that



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additional kennelling charges are kept within budget. Good processes are in place to support budget monitoring for expected revenues and expenses, and there is proficient knowledge of contract payments. The Service also demonstrates a good awareness to monitor extra kennelling capacity, and to determine contract amendments and budget variations as necessary.

We raise two medium priority findings relating to statutory requirements. Our testing found a minor inconsistency in the recording of information to meet the particulars of the Stray Dog Register. In addition, we found some deficiencies in operation to the follow-up of Micro-Chipping Notices. If Notices are not complied with, the Act gives authorisation to the council to issue a summary conviction for a fine. However, we found that in practice, this does not happen due to resource constraints, and at present, there is a lack of timely follow up.

We raise three low priority findings in relation to minor administrative matters and payments monitoring. While our testing found that previous write-offs for bad debts were reducing with the introduction of digital payments made directly to the council, no monitoring currently occurs of situations when a fee payment is unable to be made online. Additionally, the absence of reconcilable financial information between Uniform and Finance (Agresso) meant that a small number of payments could not be cross-referenced.

Grounds Maintenance

Strong

We found the grounds maintenance contract contains a defined specification of works and clearly outlines monitoring responsibilities. The service proactively monitors performance against the contract through monthly meetings, as well as carrying out quarterly site inspections. Performance is reported to Senior Management and to relevant Members through briefing notes. The Council has also recruited a Contract and Asset Monitoring Officer to support monitoring arrangements and ensure that the terms of the contract are being met.

Meeting minutes confirm that no default notices have been issued, but we could confirm there is a clearly defined process in the event that work is not completed as specified.

We found contract payments and processes are clearly specified, and that payments have been made in accordance with contract terms. While additional work did not



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form part of the scope of this audit, we identified that since January 2022, the Council has paid Blenwood in excess of £100k on additional Grounds Maintenance works outside of the contract terms. The service should consider whether this level of additional spend is acceptable, and whether future Grounds Maintenance contracts should incorporate those additional works not currently included.

Licensing Enforcement (22/23)

Sound

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 Council's 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.



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Private Water Supplies

Sound

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 (where 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 where 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.

Learning and Development

Strong

We are satisfied that there are appropriate controls in place for Learning & Development at Maidstone Borough Council (MBC) and Swale Borough Council (SBC). Both MBC and SBC have developed comprehensive workforce strategies that address the needs and challenges facing their respective workforce.

The training programmes incorporated a blend of workshops, seminars, online courses and in-person sessions from industry experts and the Learning & Development team. The programmes for MBC & SBC established training sessions



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to improve staff competencies needed to meet the requirements of the role. Both programmes included qualification and certification opportunities to encourage staff to take on senior responsibilities within each council.

Our testing confirmed that procedures for implementing and managing a successful training programme was in place at each council that supports strategic priorities.

Land Charges

Strong

Our testing focused on controls to ensure that fees received are accurate and that income is accurately reconciled with the general ledger.

We found that fee amounts are checked by officers and queried if the amount is wrong. This includes BACS payments which need to be checked manually. Automatic receipts are sent to customers after officers manually input the payment into the system. Officers send VAT receipts to the respective Councils once payments have been processed.

Reconciliations are carried out quarterly and are authorised by managers before being sent to the Finance teams of the respective Councils for review. The processes in place are effective in detecting discrepancies which are resolved with management oversight. However, we noted a weakness in how authorisations are recorded and retained to substantiate the supporting checks and to provide an audit trail.

At the time of our work the service was undertaking a consultation exercise on fees and charges and therefore fee setting was not covered as part of our work.

Cyber Security

Sound

We are satisfied that Mid Kent ICT has arrangements in place to ensure staff at the Councils it serves (Maidstone, Swale and Tunbridge Wells Borough Councils) have access to suitable training materials complemented by awareness campaigns, to encourage and promote good cyber security practices.



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Central to our work was an all staff and Councillor survey covering all Councils. The results of the survey identified some themes to develop and strengthen existing arrangements, notably around enhancing the role of senior management in response to a cyber threat and better sign posting of cyber security policies to ensure greater awareness amongst staff.

Our work also identified correct use of passwords as an area of focus with the results of our survey identifying a high proportion of respondents not using a different password for their work accounts.

We note that the service is slightly behind its ambition to run phishing campaigns on a quarterly basis but intends to catch-up with an exercise scheduled during the first quarter of 2024/25.

IT Disaster Recovery

Sound

We established that the IT disaster recovery plan (the DR plan) is readily accessible on Teams and One-drive, ensuring availability to all IT staff members. The DR plan undergoes regular update and review, to ensure it remains relevant and effective. We found that while the plan incorporates some of the National Cyber Security Centre's (NCSC) best practices, there are further opportunities to embed these requirements, particularly in areas such as outlining statutory requirements. Furthermore, we found a lack of clarity to roles and responsibilities in the DR plan, caused by inconsistent terminology and overlapping responsibilities.

We found that the Business Impact Analysis (BIA) lacks important elements such as recovery time objectives (RTO), deviating from government guidelines. Integration of the risk assessment into the plan is currently minimal and the risk matrices are incomplete. Our discussion with officer also identified that training exercises to test the DR plan have not been recently performed (within at the last 5 years), highlighting the need for completing such exercises including broader training to involve all IT staff.

Compliance with Computer Use Policy

Sound



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The Council's Computer Usage Policy was implemented in 2018. Our review found it to be up to date, and accessible to officers via the Mid Kent ICT Customer Portal. Results from our survey of officers and elected Members confirmed that the policy is communicated and accessible.

The policy outlines the monitoring procedures for identifying breaches and references key areas such as Password and Email policy, Web Access, and Digital Security Incidents. We are unable to provide assurance that the Council acts on policy breaches as our discussions with officers confirmed none have been identified.

We have identified an improvement opportunity relating to the possible security risks computers users may face when using Microsoft Teams, and two low recommendations to ensure the policy is clearly embedded as part of the induction process for officers and Members, and that both are aware of their individual responsibilities to ensure compliance.



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Annex D

Reconciliation of the approved 2023/24 Internal Audit Plan

The Position column provides the position as at 31 May 2024 and with the exception of the shaded reviews, does not warrant that this will be the final position for any of these reviews. The highlighted rows, below, are the reviews which informed the 2023/24 Head of Audit Opinion statement.

It was acknowledged that there can be a time-lag between issue of the draft report and the subsequent finalisation of an audit report. The 'Agreed Draft' status signifies that management has accepted the assurance grading provided for the review and is substantially in agreement with the detailed findings. The management responses to the Actions have not yet been provided. Consequently, for the purposes of providing the Head of Audit Opinion audit reviews which have reached Agreed Draft have been included.

Audit Review	Position at 31 May 2024
Social Media	Finalised
Safety Partnerships	Dropped
Public Health (Funerals)	Finalised
Elections Management	Postponed until 2024/25
Conservation and Heritage	Finalised
Animal Welfare	Finalised
Financial Planning (BACS Project)	Dropped
General Ledger	Postponed until 2024/25
Grounds Maintenance	Finalised
Leisure Services	Postponed until 2024/25
Emergency Planning	Postponed until 2024/25
Performance Management	Postponed until 2024/25
Housing Benefits	Dropped
Disabled facility Grants	Work in progress
HR Policy and Compliance	Finalised
Learning and Development	Finalised
Land Charges	Finalised
Cyber Security	Finalised
IT Disaster Recovery	Finalised
Compliance with Computer Use Policy	Finalised



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Annex E

About Mid Kent Audit

Standards and ethical compliance

- A. Government sets out the professional standards that Mid Kent Audit must work to in the Public Sector Internal Audit Standards (PSIAS). These Standards are a strengthened version of the Institute of Internal Audit's global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
- B. The Standards include a specific demand for reporting to Senior Management and the Audit Committee on Mid Kent Audit's conformance with the Standards.

Conformance with the PSIAS

- C. CIPFA carried out a comprehensive External Quality Assessment (EQA) in May 2020 which confirmed that MKA 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.
- D. In February 2021 the interim Head of Audit for Mid Kent Audit carried out an ISA of conformance with the PSIAS. This review confirmed conformance with the PSIAS and raised 13 advisory or low priority action points. These points are currently being reviewed and managed by the substantive Head of Mid Kent Audit.
- E. The scope of this ISA did not include consideration of either the risk management or counter fraud work carried out by MKA. The scope did not include consideration of the resourcing of MKA, the audit risk prioritisation process or the appropriateness of the times allocated to the different stages of individual audit assignments.

Resources

- F. 2023/24 was a year of continuing staff change within Mid Kent Audit. Details of a number of these changes have previously been reported to the Audit Committee in the reports submitted by Mid Kent Audit. At the end of the financial year there were still vacancies and recruitment is underway. There



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will still be an impact during 2024/25, but the position will improve over the course of the year.

Use of an external provider to assist with audit reviews

- G. In September 2022, following a procurement process, Veritau was appointed to carry out a number of the audit reviews for which Mid Kent Audit did not have the available resources in-house. This contract was renewed in June 2023. This reflects that Mid Kent Audit has ensured the difficulties with staffing experienced during the year have been partially mitigated.



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Audit Committee		Agenda Item:
Meeting Date	17 July 2024	
Report Title	Annual Treasury Management Report 2023/24	
EMT Lead	Lisa Fillery, Director of Resources	
Head of Service	Claire Stanbury, Head of Finance and Procurement	
Lead Officers	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant	
Classification	Open	

Recommendations	1. To note the Treasury Management outturn report for 2023/24.
------------------------	----------------------------------------------------------------

1. Purpose of Report and Executive Summary

- 1.1 The Council’s Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) Code of Practice on Treasury Management (“the Code”), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year.
- 1.2 Treasury Management is defined as “the management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council’s Treasury Management objectives.
- 1.3 For 2023/24 the Investments Section of the Kent County Council (KCC) Finance Department had operational responsibility for the daily treasury management duties. KCC Finance in undertaking this work had to comply with Swale Borough Council’s Treasury Management Strategy. Overall responsibility for Treasury Management remained with the Council.
- 1.4 This report:
 - is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
 - details the implications of treasury decisions and transactions;
 - gives details of the outturn position on Treasury Management transactions in 2023/24; and
 - confirms compliance with Treasury limits and Prudential Indicators.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2023 £'000	Movement in Year £'000	Balance on 31/3/2024 £'000
Capital Financing Requirement	48,406	3,707	52,113
External Borrowing	(10,000)	0	(10,000)
Cumulative External Borrowing Requirement	38,406	3,707	42,113

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be accounted for as a charge to the General Fund.

2.3 The reason for the increase in the CFR in 2023/24 is due to the increase in the unfunded capital spend.

2.4 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.5 Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. On 31st December, the PWLB certainty rates for maturity loans were 4.74% for 10 year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.6 The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

2.7 The table below summarises the Council's borrowing portfolio at 31 March 2024.

Lender	Loan Value £'000	Borrowing Rate	Duration of the Loan	Borrowing Date	Loan Repayment Date
North Northamptonshire Council	5,000	6.05%	317 days	26/02/2024	08/01/2025
PWLB	5,000	5.33%	530 days	19/03/2024	31/08/2025

Investment Activity

2.8 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24, the Council held average daily cash balances of £23 million (£30 million for 2022/23) and our investment balances closed at £15.2 million at 31 March 2024.

2.9 The Council's budgeted investment income for 2023/24 was £226,000 and the actual income received was £1,171,000, of which £144,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.10 The table below summarises the Council's investment portfolio at 31 March 2024. 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 at 31 March 2024.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2024 £'000
Morgan Stanley MMF	AAAmmf	1,770
Black Rock MMF	AAAmmf	3,000
Invesco MMF	AAAmmf	3,000
SSgA MMF	AAAmmf	1,440
Aberdeen MMF	AAAmmf	3,000
CCLA Property Fund	unrated	3,000
Total		15,210

2.11 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:

- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

2.12 The treasury management position at 31st March 2024 and the changes during the year is summarised below:

Investments	Balance on 31/03/23	Movement in Year	Balance on 31/03/24	Average Rate at 31/03/24
	£'000	£'000	£'000	%
Money Market Funds	6,550	5,660	12,210	4.37
Long-Term Investments	3,000	0	3,000	4.79
TOTAL INVESTMENTS	9,550	5,660	15,210	
Borrowing				
Short-Term Borrowing	(10,000)	0	(10,000)	4.45
TOTAL BORROWING	(10,000)	0	(10,000)	

2.13 The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund. Accounting requirements dictate that financial instruments, which include this investment, are carried in the balance sheet at fair value. The fair value for this fund is based on the market price which as at 31 March 2024 was £2.751 million.

2.14 Because CCLA fund has no defined maturity date, but funds are available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.

2.15 In keeping with the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of Debt Management Agency Deposit Facility (DMADF).

2.16 The Council sought to optimise returns commensurate with its objectives of security and liquidity.

2.17 The criteria applied by the Director of Resources for the approval of a counter party for deposits are:

- credit rating - a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group; and
- country exposure.

2.18 The investments permissible by the 2023/24 Treasury Strategy were:

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

2.19 This Council takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at lower rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget

2.20 The maximum permitted duration for unsecured deposits with major UK Banks and building societies is 13 months. For 2023/24 the Director of Resources in consultation with chair of Policy & Resources Committee could consider longer duration. Bonds could have been purchased with a maximum duration of five years.

2.21 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. At 31 March 2024 the Council held £3,896 million of a longstanding portfolio of 11 investment properties within the borough. These investments generated £0.2 million of investment income for the Council in 2023/24 after taking account of direct costs, representing a rate of return of 5.7%.

External Context

- 2.22 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.
- 2.23 The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.
- 2.24 Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.
- 2.25 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. Bank Rate was maintained at 5.25% through to March 2024. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.
- 2.26 Following this MPC meeting, Arlingclose, the Council's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Credit Review

- 2.27 In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.
- 2.28 Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment.

- 2.29 In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.
- 2.30 As market volatility is expected to remain a feature, at least in the near term, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

CIPFA Code and PWLB Lending Facility Guidance

- 2.31 Authorities that are purchasing or intending to purchase investment assets primarily for yield are not able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 2.32 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
- 2.33 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.
- 2.34 Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) 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 until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Compliance

- 2.35 The Council has complied with its Prudential and Treasury Management Indicators for 2023/24 which were set as part of the Treasury Management Strategy agreed by Council in February 2023.
- 2.36 In Appendix I the outturn position for the year against each Prudential Indicator is set out.
- 2.37 The Head of Finance and Procurement confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Treasury Advisers

- 2.38 Arlingclose has been the Council's treasury advisers since May 2009. Officers of the Council meet with Arlingclose regularly and high quality and timely information is received from them.

Capital Strategy

- 2.39 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2023/24, complying with CIPFA's requirement, was approved by Council on 22 February 2023.

3. Proposal

- 3.1 Members are asked to note the report.

4. Alternative Proposals

- 4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

- 5.1 Our treasury advisors, Arlingclose, have been consulted.

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	Not relevant to this report
Environment and Climate/ Ecological Emergency	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report

Issue	Implications
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2023/24 - Appendix I

Introduction

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. 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.

This report compares the approved indicators with the outturn position for 2023/24. Actual figures have been taken from, or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2023/24 Actual £'000
Total Capital Expenditure	11,020
Source of Funding	
Capital grants and other contributions	3,780
Earmarked reserves	623
Borrowing	4,789
Capital receipts	1,800
Direct Revenue Funding	28
Total Financing	11,020

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/24 Estimate £'000	31/03/24 Actual £'000	31/03/24 Difference £'000
Total CFR	53,996	52,113	(1,883)
External Borrowing	(30,000)	(10,000)	20,000
Cumulative External Borrowing Requirement	23,996	42,113	18,117

External borrowing: as at 31 March 2024 the Council had £10 million of external

Treasury Management and Prudential Indicators for 2023/24 - Appendix I

borrowing

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.

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/24 Boundary £'000	31/03/24 Actual Debt £'000	Complied
Borrowing	55,000	10,000	✓
Other Long-Term Liabilities	2,000	0	✓
Total Authorised Limit	57,000	10,000	✓

The Director of Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2023/24.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights 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	31/03/24 Estimate %	31/03/24 Actual %	Difference %
General Fund Total	6.62	0.47	6.15

Treasury Management and Prudential Indicators for 2023/24 - Appendix I

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 were:

	31/03/24 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	50	100	0	✓
12 months and within 24 months	50	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

Principal Sums Invested for Periods Longer than 364 days: 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

	2023/24 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Investment Benchmarking

Average Actual Return on Investments 2023/24	Original Estimate Return on Investments 2023/24	Average Bank Rate 2023/24	Average 7-day SONIA Rate 2023/24
4.37%	0.92%	4.75%	4.96%

SONIA is the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.