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Gateshead Council

AUDIT AND STANDARDS COMMITTEE AGENDA

Thursday, 7 March 2024 at 10.00 am in the Blaydon Room

From the Chief Executive, Sheena Ramsey

Item	Business
1	**Apologies for Absence**
2	**Minutes** (Pages 3 - 4) The Committee is asked to approve, as a correct record, the minutes of the meeting held on 30th January 2024.
3	**Declarations of Interest** Members of the Committee are invited to declare interests in any agenda items.
4	**Annual Governance Statement 2023/24 - Assurance Framework** (Pages 5 - 10) Report of the Strategic Director, Resources and Digital
5	**Treasury Management 2023/24 Quarter 3 Performance** (Pages 11 - 18) Report of the Strategic Director, Resources and Digital.
6	**Treasury Management Strategy 2024-25** (Pages 19 - 50) Report of the Strategic Director, Resources and Digital
7	**Local audit delays: proposals to clear the backlog and embed timely audit** (Pages 51 - 56) Report of the Strategic Director, Resources and Digital
8	**Mazars External Audit Progress Report** Report of the Strategic Director, Resources and Digital
9	**Date and time of next meeting** Thursday 25th April 2024 at 4pm in the Blaydon Room

Contact: Kate Lowes, Tel: 0191 433 4244,
Email: democraticservicesteam@gateshead.gov.uk, Date: Wednesday, 28 February 2024

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GATESHEAD METROPOLITAN BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE MEETING

Tuesday, 30 January 2024

PRESENT: Councillor L Kirton (Chair)

Councillor(s): H Kelly, J McElroy, Mr Stuart Bell (Independent Member) and Mr Ian Dormer (Independependant Member)

APOLOGIES: Councillor(s): R Mullen, R Beadle, L Green and C Ord

ASC481 MINUTES

The Committee received an update on the 2022/23 Audit. The audit is substantially completed with an expectation completion date of week ending 2nd February 2024. The annual report will be presented at the next committee.

The minutes were approved as a correct record.

ASC482 DECLARATIONS OF INTEREST

There were no declarations of interest.

ASC483 CORPORATE RISK MANAGEMENT 2023/24 - QUARTER 3 UPDATE

The Committee received a report which updated the Committee on Corporate Risk Management developments during the period 1 October 2023 to 31 December 2023.

The report provided an update on Strategic Risk Management, Operational Risk Management, Business Continuity Management and the Corporate Risk and Resilience Group.

The Corporate Risk and Resilience Group last met on 16 January 2024. The following items were considered:

- Review of recent Business Impact Assessment and Business Continuity Plan seasonal refresh
- Updates from Groups and Services

The Committee discussed if regularly implement stress tests on across the Council to ensure recovery plans are fit for purpose. It was discussed IT may have stress tests and is part of the audit test, but these facts are to be checked and reported back to the Committee. There is a resilience plan in place but advised this could be of interest for the Committee to see the presentation.

RESOLVED: That the information contained within the report be noted.

ASC484 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED - That the press and public be excluded from the meeting for consideration of the remaining items in accordance with paragraph 7 of Schedule 12A of the Local Government Act 1972.

ASC485 INTERNAL AUDIT PLAN 2023/24 QUARTERLY MONITORING REPORT TO 31 DECEMBER 2023

The Committee received and approved a report which outlined the progress made by the Internal Audit and Risk Service against the audit plan for the financial year 2023.

RESOLVED: That the information contained within the report be noted.

ASC486 DATE AND TIME OF NEXT MEETING

The next meeting will take place on 7th March 2024 at 10am in the Blaydon Room.

Chair………………………..

Gateshead Council

Audit and Standards Committee
07 March 2024

Title of Report:	**Annual Governance Statement 2023/24 - Assurance Framework**
Report of:	**Darren Collins, Strategic Director, Resources & Digital**

Purpose of the Report

1 This report provides an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2023/24 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements.

Background

2 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively demonstrating value for money.

3 The Accounts and Audit Regulations 2015 require the Council to produce an AGS setting out its governance arrangements and reviewing their effectiveness. The statement accompanies the Annual Statement of Accounts and is signed by the Leader of the Council and Chief Executive.

4 The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making, that there is clear accountability for the use of those resources in order to achieve the desired outcomes for service users and the community.

Assurance Framework

5 The assurance framework supports the AGS and provides councillors with information on the Council's control environment and governance arrangements. It maps the Council's strategic objectives to risks and controls and seeks assurance from a number of sources of Council activity.

6 The process of preparing the AGS should itself add value to the effectiveness of the Governance Assurance Framework. The assurance process will demonstrate four aspects:

- **Identify** – what do we want assurance on?
- **Assess** – what are the sources of assurance?
- **Review** – how is assurance validated?
- **Act** – what are the opportunities to improve?

7 In preparing the governance statement it will be necessary to review evidence from the following sources which together form the assurance framework:

- Governance arrangements
- Councillors
- Senior Managers
- The system of internal audit
- Risk Management arrangements
- Counter Fraud arrangements
- Performance Management and data quality
- Views of the external auditor and other external inspectorates
- The legal and regulatory framework
- Financial controls
- Partnership arrangements and governance
- Other sources of assurance.

Governance arrangements

8 The Council has a Local Code of Governance, which was last updated and agreed by the Audit and Standards Committee on 07 February 2023. This Code defines how the Council complies with the principles of good governance as set out in the Local Code of Governance developed by CIPFA, Delivering Good Governance in Local Government: Framework. The principles of good governance in the framework are:

- Behaving with integrity
- Ensuring openness and comprehensive engagement
- Defining sustainable outcomes
- Determining interventions
- Developing capacity
- Managing risks and performance
- Implementing good practice in transparency

9 The effectiveness of the Council's governance arrangements will be considered through the assessment of the assurances below.

Councillors

10 The Council's Constitution sets out the role of the Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a range of stakeholders;
- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within the framework where appropriate;
- To monitor and implement the budget and policy framework through taking a lead role on Best Value and through co-ordination with the Overview and Scrutiny role;
- To provide a public face for specific issues.

11 Assurance will be sought from members of the Cabinet on the effectiveness they feel can be placed on the Council's corporate governance arrangements.

Senior Managers

12 All Service Directors will complete a self assessment assurance statement detailing the level of assurance they feel they can place on their key control and governance processes. This statement will be reviewed and updated for 2023/24 to ensure it remains focused on the key areas. The evidence used to complete these statements will be evaluated by Internal Audit as part of the 2024/25 plan.

The system of internal audit

13 The Accounts and Audit Regulations 2015 require all authorities to "conduct an annual review of the effectiveness of internal audit and for a committee of the body to consider its findings" and that this process should be part of the annual review of the effectiveness of the system of internal control, which results in the production of the Annual Governance Statement. Best Practice highlights that "internal audit", in this context, includes not only the Internal Audit Service but also the Audit and Standards Committee.

14 The review ensures the opinion of the Chief Internal Auditor given in the Internal Audit Annual Report can be relied upon as a key source of evidence in the Annual Governance Statement.

15 The Strategic Director, Resources & Digital has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972.

16 This review of the effectiveness of the system of Internal Audit for 2023/24 will be undertaken by the Council's Internal Control Group, which includes the Strategic Directors of Resources & Digital and Corporate Services & Governance. This review will be based upon:

- Self-assessment against Public Sector Internal Audit Standards (PSIAS);
- Self-assessment against the CIPFA Role of the Head of Internal Audit;
- Results of external assessment against Public Sector Internal Audit Standards (PSIAS);
- Assessment of the effectiveness of the Audit and Standards Committee;
- Relevant performance information; and
- Where appropriate, reliance placed upon Internal Audit by the Council's external auditor.

17 The overall opinion of the Chief Internal Auditor based on the work undertaken by the Internal Audit & Risk Service and other providers during the year will be reported to the Audit and Standards Committee in June as part of the Internal Audit Annual Report 2023/24.

Risk management arrangements

18 The Corporate Risk Management Policy identifies the roles and responsibilities of the following key groups:

- Councillors through the engagement of Cabinet and the Audit and Standards Committee;
- Chief Executive;
- Strategic Director, Resources & Digital;
- Strategic Directors;
- Service Directors;
- Service Managers;
- Internal Audit & Risk Service; and
- The Corporate Risk and Resilience Group (including Service Risk Co-ordinators)

19 The Policy is reviewed annually to ensure it reflects organisational changes which have taken place since it was first adopted. The existing governance arrangements provide a means by which the effectiveness of the Policy can be monitored, thereby facilitating its ongoing development.

20 The Strategic Director, Resources & Digital prepares an annual report for the Audit and Standards Committee detailing the Council's risk management arrangements during the year and its findings. The report also includes a view on the effectiveness of the Council's risk management arrangements.

Counter Fraud Arrangements

21 The Council's Counter Fraud and Corruption Strategy clearly identifies the Council's commitment to an effective approach to Counter Fraud and Corruption and outlines the principles the Council is committed to in preventing and reporting fraud and corruption.

22 Regular reports on any activity relating to this Strategy, and progress against the fraud plan, are provided to the Committee.

23 A Counter Fraud and Corruption Policy and Fraud Response Plan forms an important part of the Counter Fraud and Corruption Strategy by setting the tone, culture and expectations of the Council, as part of the corporate framework. The Policy outlines the Council's attitude to and position on, fraud and corruption and sets out responsibilities for its prevention and detection. It also communicates important deterrence messages to employees, Councillors and third parties, that fraudulent conduct will not be tolerated by the Council and that the stance against fraud is endorsed and supported at the most senior level.

24 The Fraud Response Plan details the Council's procedures for responding to any incidents of suspected fraud or corruption. The Plan sets out how suspicions should be raised and how investigations will be conducted and concluded.

25 An annual report will be provided to the Committee on performance against the strategy and the effectiveness of the strategy.

Views of the external auditor and other external inspectors

26 The external auditor issues an Annual Audit Letter to the Council, providing a review of the Council's value for money arrangements and reporting any significant issues arising from the audit of the Council's financial statements.

27 There are a number of other external inspectorates which may report on management or governance arrangements at the Council in the course of the year.

Performance management and data quality

28 The Council's corporate Performance Management and Information Framework (PMIF) is a positive tool for employees, managers and councillors to use to identify how well it is delivering for local people and where to improve delivery so that services and outcomes offer value for money and achieve better results. Service Directors use performance data, alongside management and operational data, to guide development of their business plans to ensure business continuity and service improvement.

29 The PMIF is reviewed periodically to ensure it provides effective challenge and supports the continuous improvement of Council services.

30 The purpose of the PMIF is to:

- Enable the Council to know whether it is achieving its priorities;
- Ensure that the Council's resources are being deployed effectively;
- Make both short and long-term effective decisions; and
- Enable a whole systems approach – embedded in our partnership working to deliver the Health & Wellbeing Strategy.

31 Cabinet Agreed this approach 19 October 2021. Implementation will be iterative, with continuous development, considering developing strategies and plans to inform the further development of Outcomes, Interventions, Resource and Performance Measures.

32 The framework has seen widespread engagement with officers and members and is reported to SMG Services and Performance and the relevant Overview and Scrutiny Committee and Cabinet.

Legal and regulatory framework

33 Assurance will be sought from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body.

Financial controls

34 Assurance will be sought from the Strategic Director, Resources & Digital who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety, publicity and budget issues; giving financial information; and acting as the Council's money laundering reporting officer.

Partnership arrangements & governance

35 Each Service Director is required to review the partnerships their Service is connected with and record details within their business plan on an annual basis. As partners are key to the delivery of the Council's objectives, assurance of their control and governance systems is required. The overall opinion on the effectiveness of such arrangements will be presented in an annual report to the Audit and Standards Committee.

Other sources of assurance

36 Other areas include anything not covered above which gives an opinion on the Council's internal control environment or governance arrangements.

Production of the Annual Governance Statement 2023/24

37 A corporate group, chaired by the Strategic Director, Resources & Digital will use the findings of the above sources of assurance to form a view on the adequacy of the Council's overall internal control and governance arrangements.

38 Using evidence from this assessment the Group will prepare the AGS for 2023/24 for approval by the Audit and Standards Committee in June 2024. This will then accompany the Statement of Accounts for 2023/24.

Recommendation

39 The Committee is asked to agree the Assurance Framework as set out in this report.

Contact: Craig Oakes Ext. 3711

Gateshead Council

REPORT TO AUDIT AND STANDARDS COMMITTEE
7 March 2024

TITLE OF REPORT: **Treasury Management Performance – Third Quarter Review 2023/24**

REPORT OF: **Darren Collins – Strategic Director, Resources & Digital**

Purpose of the Report

1. The purpose of this report is to review Treasury Management 2023/24 performance for the nine months to 31 December 2023, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The quarterly performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy (TMSS) which was approved by Council on 24 March 2023.

3. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Summary of Treasury Management Performance 2023/24 Quarter 3

5. The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council, whilst maintaining the security of funds. Performance in the first nine months of the financial year indicate a strong investment position, with returns exceeding budget expectations.

6. No new borrowing has been taken out to date during 2023/24, interest rates are monitored closely to inform the best timing to take new borrowing in order to minimise the revenue impact of financing the Council's Capital Programme.

7. Treasury Management Prudential Indicators are monitored throughout the year and the Council is within the limits set for all Treasury Management Prudential Indicators.

8. More detailed Treasury Management performance information is included in Appendix 1.

Recommendation

Committee is requested to note the Treasury Management Performance to 31 December 2023.

CONTACT: John Chirnside, ext. 2713

APPENDIX 1

Treasury Management Performance Report 2023/24 Quarter 3

Investment Performance

1. The latest projection at 31 December 2023 of gross investment income for 2023/24 based on interest earned to date and expected interest to March 2024 is £5.391m, compared to an original estimate of £4.560m.

2. This gross investment interest is adjusted to account for £0.907m interest payable to third parties (budget £0.742m), temporary loans of £0.037m (budget £0.011m) and interest receivable of £1.265m from various third parties (budget £1.273m).

3. This gives a projected net interest to the General Fund 2023/24 of £7.366m compared to the budget of £5.080m. The variance to budget is mainly as a result of higher levels of interest received due to higher increases to the Bank of England base rate than anticipated when the 2023/24 budget was set and additional income received from Newcastle Airport.

The Economy

4. The Bank of England's Monetary Policy Committee have agreed the following increases so far in 2023/24:

Date	Base Rate
01 April 2023	4.25%
11 May 2023	4.50%
23 June 2023	5.00%
04 August 2023	5.25%

It is anticipated that base rate increases have peaked at 5.25% and rates are projected to be static for the remainder of the current financial year.

Rate of Return

5. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 5.11%, which is an improvement on the original estimate of 3.84%.

6. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across regional Local Authorities. In the most recent report received 22 November 2023 the Council achieved a weighted average rate of return of 5.417% on its investments for Quarter 3 2023/24 which is above the groups average return of 5.25% and above the risk adjusted expectations defined in the Benchmarking Report for our Group.

7. As at 31 December 2023, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 5.11%

compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 4.96%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

8. The average rate of return is forecast to remain relatively static during the remainder of the financial year as low interest investments mature, investment balances are projected to remain consistent and new deposits placed with slightly higher yielding returns. Interest rates for new investments at 31 December 2023 are around 5.00% for 12 months and 5.30% for 6 months, allowing the Council to maintain existing returns from investing cash balances.

Borrowing

14. The total borrowing for the Council and HRA as at 31 December 2023 was £684.966m, which was within the operational borrowing limit of £855.000m. This borrowing is made up of £636.966m Public Works Loans Board (PWLB) loans and £48.000m market loans.

15. The Treasury Strategy estimates for the 2023/24 financial year were based on a total borrowing requirement of £81.573m with £62.406m relating to the GF and £19.166m the HRA. The position at 31 December 2023 had a lower projected borrowing requirement of £68.922m, with £48.884m relating to the GF and £20.038 to the HRA.

16. Due to the current high long-term borrowing rates there has been no borrowing taken in the year to date. The timing of any further borrowing will depend on cash flow requirements to support the capital programme, pending borrowing rates reducing.

17. No refinancing of debt has been carried out in 2023/2024 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 3.5%, and, as such, the Council already benefits from this lower cost of borrowing. Based on information from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

18. PWLB Borrowing costs have increased and fluctuated in-year. Based on a 50 year loan borrowing peaked in October 2023 with a 5.75% interest rate but have reduced to 4.68% by the end of December 2023. PWLB rates are currently higher than budgeted and will be monitored to ensure any borrowing is taken at the optimum time to minimise the number of long term loans entered into at the current higher level of interest rates.

19. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	**HRA**
Forecast Interest Payable	£12.273m	£12.028m
Average rate of interest	3.34%	3.78%

This represents a gross saving of £1.458m on the original estimate, of which £1.318m is a saving for the General Fund and £0.140m additional cost to the HRA.

Compliance with Treasury and Prudential Limits

20. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the period to 31 December 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24 as demonstrated in Appendix 2.

21. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £865.000m for 2023/2024. The Council's maximum external debt during the financial year to 31st December 2023 was £684.966m and is within this limit.

22. A new prudential indicator has been introduced for 2023/24, the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum and Appendix 2 shows the current position as 31 December 2023.

23. More details of the Treasury Management Prudential Indicators are set out in Appendix 2 for information.

Summary of Mid-Year Performance

24. The projected net impact of investment and borrowing activity on the revenue budget in 2023/24 is an underspend of £3.328m, comprising £3.603m General Fund underspend and £0.365m HRA overspend.

	General Fund			**HRA**		
	Estimate £m	Projected Outturn £m	Variance £m	Estimate £m	Projected Outturn £m	Variance £m
Investments	(5.080)	(7,366)	(2.286)	(0.555)	(0.050)	0.505
Borrowing	13.591	12.273	(1.318)	12.228	12.088	(0.140)
Premia	0.462	0.463	0.001	0.000	0.000	0.000
Net Position	**8.973**	**5.370**	**(3.603)**	**11.673**	**12.038**	**0.365**

25. Current interest rates for investments at 31 December 2023 are around 5.00% for 12 months and 5.30% for 6 months, allowing the Council to maintain existing returns from investing cash balances.

26. The balance of external and internal borrowing is generally driven by market conditions. The council will continue to monitor the market to identify any opportunity to repay borrowing earlier than planned, subject to any discounts received.

Appendix 2

Maturity Profile of Fixed Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of fixed rate borrowing.

Fixed Rate Borrowing				
	Lower	**Upper**	**Actual @ 31 December**	**Max Actual to date**
< 1 yr	0%	15%	2.78%	2.78%
1 – 2 yrs	0%	19%	3.02%	3.02%
2 – 5 yrs	0%	22%	7.69%	9.15%
5 – 10 yrs	0%	22%	10.98%	11.71%
10 – 20 yrs	0%	17%	5.04%	6.50%
20 – 30 yrs	0%	41%	6.65%	6.65%
30 – 40 yrs	0%	42%	32.73%	33.46%
40 – 50 yrs	0%	41%	29.64%	33.29%
50 yrs +	0%	11%	0.00%	0.00%

Maturity Profile of Variable Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of variable rate borrowing.

Variable Rate Borrowing				
	Lower	**Upper**	**Actual @ 31 December**	**Max Actual to date**
< 1 yr	0%	16%	1.46%	2.92%
1 – 2 yrs	0%	11%	0.00%	0.00%
2 – 5 yrs	0%	11%	0.00%	0.00%
5 – 10 yrs	0%	11%	0.00%	0.00%
10 – 20 yrs	0%	11%	0.00%	0.00%
20 – 30 yrs	0%	11%	0.00%	0.00%
30 – 40 yrs	0%	11%	0.00%	0.00%
40 – 50 yrs	0%	11%	0.00%	0.00%
50 yrs +	0%	11%	0.00%	0.00%

Operation and Authorised Limits (External Debt)

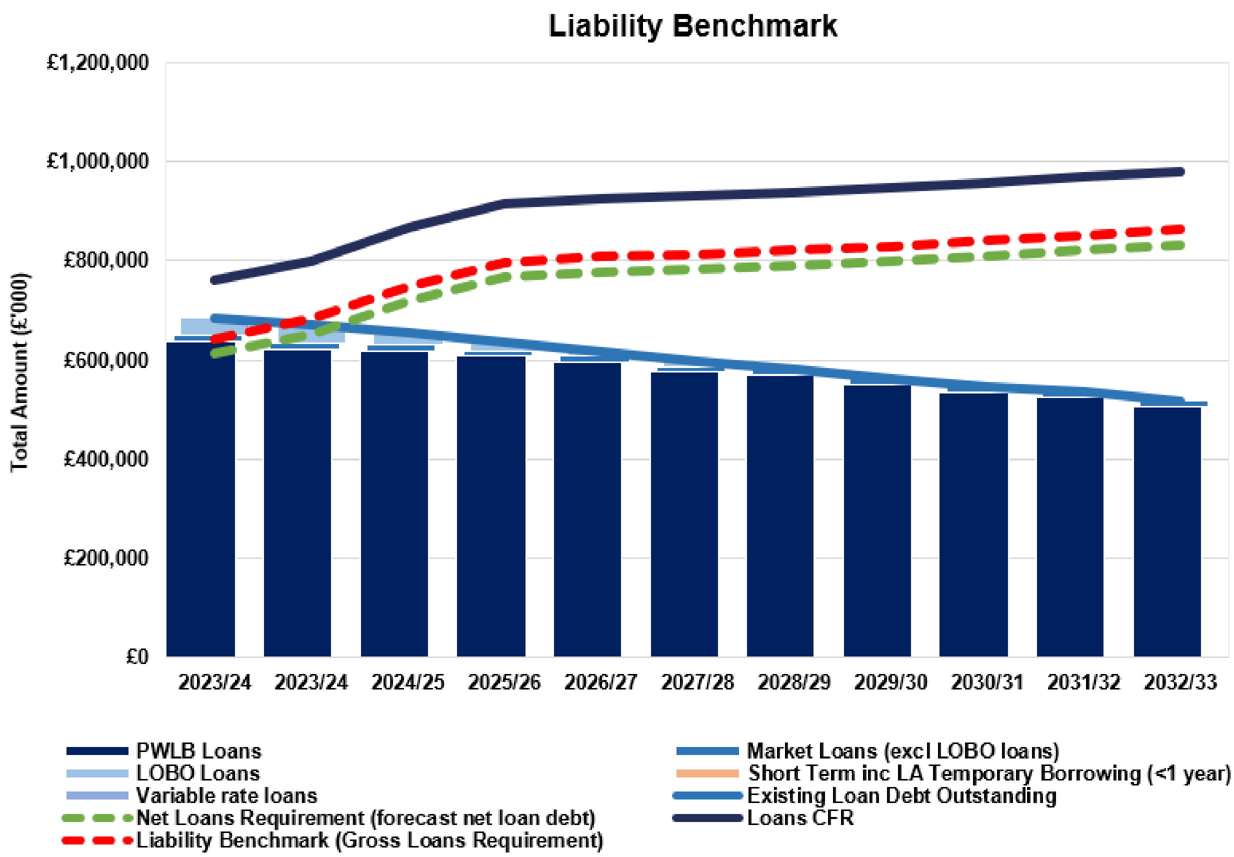
	£m
Operational Limit 2023/24	850.000
Authorised Limit 2023/24	865.000
Actual External Debt Outstanding 31 Dec 2023	684.966
Maximum Debt Outstanding to 31 Dec 2023	684.966

Non-Specified Investments

As part of the Annual Investment Strategy, the approved limits in respect of non-specified investments have been agreed. The limits and actual performance are detailed below for counterparties with ratings which fall short of the Council's high credit rating. Investments over 364 days are also classed as non-specified.

	Limits 2023/24	Actual Levels 31 Dec 2023	Maximum to date
Rated Not High	25.00%	0.00%	5.82%
Not Rated	0.00%	0.00%	0.00%
Over 364 days (max of 3 yrs.)	£15m / 20.00%	£0m / 0.00%	£0m /0.00%

Liability Benchmark



The Liability Benchmark gross loans requirement, subject to using internal borrowing and maintaining a liquidity allowance in Treasury Management investments, indicates external debt is below the benchmark.

Gateshead Council

REPORT TO AUDIT AND STANDARDS COMMITTEE
7 MARCH 2024

Title of report: **Treasury Policy Statement and Treasury Strategy 2024/25 to 2028/29**
Report of: **Darren Collins – Strategic Director, Resources and Digital**

Purpose of the Report

1. This report asks the Audit and Standards Committee to review the proposed Treasury Policy Statement and Treasury Strategy for 2024/25 to 2028/29 prior to consideration by Cabinet.

Background

2. To provide a framework for the Strategic Director, Resources and Digital to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

3. The attached Treasury Policy and Treasury Strategy have been prepared considering the Local Government Act 2003, Department for Levelling up, Housing and Communities (DLUHC) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital (2021) and CIPFA's Code of Practice on Treasury Management (2021).

4. There have been no changes to the guidance detailed in paragraph 3 and the Council's Treasury Policy and Treasury Strategy remains consistent with the approach taken in 2023/24.

Proposals

5. The Committee is asked to review the Treasury Policy and Treasury Strategy attached at Appendix 1 and Appendix 2, to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

Recommendation

6. The Committee is asked to review the recommendations on the Treasury Policy and the Treasury Strategy and submit any comments to Cabinet.

For the following reason:

- To ensure that the Council fully complies with the requirements of good practice as recommended by the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and Prudential Code for Capital (2021) and the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments.

CONTACT: John Chirnside, ext. 2713

Treasury Policy 2024/25 to 2028/29

1. Approved Activities of the Treasury Management Operation

1.1 In December 2021 CIPFA published a revised Code of Practice on Treasury Management in the Public Services (the Code), which represents best practice. Treasury management activities are defined by CIPFA as:

> “The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.2 The term “investments” used in the definition of treasury management activities includes all financial assets of the organisation, as well as other non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is also consistent with the Council’s risk appetite.

2. Formulation of the Treasury Strategy

2.1 The formulation of a Treasury Strategy involves determining the appropriate borrowing and investment decisions with the prime objective of safeguarding the Council’s assets and secondary objectives of obtaining a reasonable rate of return on investments and minimising the costs of borrowing. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council and ensure robust due diligence procedures cover all treasury and non-treasury investments.

2.2 The Treasury Strategy encompasses the requirements of CIPFA’s Treasury Management Code of Practice, Prudential Code for Capital and the DLUHC Guidance on Local Government Investments.

2.3 The revised Treasury Management Code and revised Prudential Code were published by CIPFA on 20 December 2021. The Council complied with all previous requirements of the codes and have adopted new reporting obligations arising from the revised codes into the 2024/25 Treasury Policy Statement and Treasury Strategy report.

2.4 The Strategy for 2024/25 to 2028/29 is attached at Appendix 2.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Council may borrow money:
(a) for any purpose relevant to its functions under any enactment, or
(b) for the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Treasury Management Code of Practice the Council have adopted prudential indicators (detailed in Appendix 2, section 1.4).

4. Annual Investment Strategy

4.1 The DLUHC has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify”. The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.2 Central to the guidance and the Code is the need to produce an Annual Investment Strategy. This is included as Section 6 of the Treasury Strategy in Appendix 2.

4.3 The Annual Investment Strategy document will include:

- The Council’s risk appetite in respect of security, portfolio liquidity and return;
- The definition of ‘high’ and ‘non-high’ credit quality to determine what are specified investments and non-specified investments;
- Which specified and non-specified instruments the Council will use, dealing in more detail with non-specified investments given the greater potential risk;
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies;
- The types of investments that may be used during the course of the year,
- The limit to the total amount that may be held in each investment type;
- The Council’s policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Council will deal with changes in ratings, rating watches and rating outlooks;
- Limits for individual counterparties, groups and countries;
- Guidelines for making decisions on investments and borrowing; and
- The Council’s policy on commercial investments held for return.

4.4 As part of the annual review of counterparty limits changes to the existing market conditions and level of council reserves held have been considered. The level of investment per counterparty has therefore been held at the same limit as the previous year, as shown in Appendix 2 Sections 6.15 and 6.21 respectively.

5. Policy on Interest Rates Exposure

5.1 The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the Strategic Director, Resources and Digital, will obtain approval from the Council prior to entering into any arrangement of this nature.

6. Policy on Delegation, Review Requirements and Reporting Arrangements

6.1 It is the Council’s responsibility under the Code to approve a Treasury Policy statement.

6.2 The Council delegates the review of the policy and monitoring of the performance of the treasury management function to Cabinet, the scrutiny of treasury management strategy and policies to the Audit and Standards Committee, and the execution and administration of treasury management decisions to the Strategic Director, Resources and Digital, who will act in accordance with the organisations policy statement and Treasury Management Practices (TMPs) and CIPFA’s Standard of

Professional Practice on Treasury Management. Any proposals to approve, adopt or amend policy require the consent of the Council and are matters for the Council to determine.

6.3 Treasury Strategy (Appendix 2, Section 1.3) outlines the Council's arrangements for reporting on Treasury Management.

6.4 As from 1st April 2019, CIPFA required all local authorities to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
b) an overview of how the associated risk is managed; and
c) the implications for future financial sustainability.

6.5 The aim of this report is to ensure that all elected members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

6.6 The Capital Strategy 2024/25 to 2028/29 was approved by Cabinet on 21st November 2023.

Treasury Strategy 2024/25 to 2028/29

1. Introduction

1.1 The CIPFA Code of Practice on Treasury Management 2021 (the Code) emphasises a number of key areas including the following:

a) All authorities must formally adopt the Code.
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security and portfolio liquidity when investing treasury management funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports must be approved by full Council.
i) There needs to be a quarterly review of Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of Treasury Management Strategy and policies to a specific named body.
k) Treasury Management performance and policy setting should be subjected to prior scrutiny.
l) Councillors should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
m) Responsibility for these activities must be clearly defined within the organisation.
n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the Treasury Management Practices).
o) "Investments" covers the financial and non-financial assets which the organisation holds primarily for financial returns. This will include investments which are not managed as part of the normal treasury management delegations.

1.2 This Strategy has been prepared in accordance with the Code.

1.3 The Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy & Strategy / Annual Investment Strategy	Council approval with review delegated to Cabinet/ Audit and Standards Committee	Annually before the start of the year or where a material change is proposed
Annual Report on borrowing and investment activity	Council with review delegated to Cabinet/ Audit and Standards Committee	Annually by 30 September after the end of the year
Scrutiny of treasury management performance via a bi-annual report	Council approval with review delegated to Cabinet / Audit and Standards Committee	Bi-annual
Treasury management indicator monitoring via a quarterly report	Audit and Standards Committee	Quarterly
In year changes to agreed Treasury Management Policy & Strategy / Annual Investment Strategy / Prudential and Treasury Indicators	Cabinet	By exception
Scrutiny of treasury management Policy, Strategy and procedures	Audit and Standards Committee	Annually before the start of the year
Treasury Management Monitoring Reports	Strategic Director, Resources and Digital	Bi-Monthly/Weekly
Treasury Management Practices	Strategic Director, Resources and Digital	Monthly

1.4 Given the link to the revenue budget and capital programme, the following indicators were approved by the Council on 20 February 2024 as part of the Budget and Council Tax Level 2024/25 report. For completeness, the approved indicators are attached at Appendix 3:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit;
- Liability Benchmark
- Operational boundary;
- Actual external debt;
- Gross debt and Capital Financing Requirement;

- Upper and lower limit of maturity structure of borrowing fixed and variable; and
- Upper limit on principal sums invested for periods of over 365 days.

1.5 In addition to the above indicators, local indicators showing the level of reserves which are backed by cash in the bank and internal borrowing as a percentage of the capital financing requirement are included in this report. Also, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy. This is highlighted within the main borrowing strategy outlined in Section 4.6 below.

1.6 The Strategy covers:

a) Prospects for interest rates;
b) Treasury limits in force which will limit the treasury risk and activities of the Council, including prudential and treasury indicators;
c) The borrowing strategy;
d) Sensitivity forecast;
e) External and internal borrowing;
f) Debt rescheduling;
g) Policy on borrowing in advance of need;
h) The investment strategy; and
i) The policy on the use of external service providers.

2. Prospects for Interest Rates

Interest Rates

2.1 The current financial year 2023/24 has seen UK inflation continue to reduce from Q4 2022 highs of 11.1% and currently sits at 4% (January 2024).

The Bank of England has taken action to control inflation by increasing the Bank Base Rate at every Monetary Policy Committee meeting up to August 2023, increasing the base rate to 5.25% where it has remained to February 2024. It is considered likely that rates have peaked and forecasts indicate small, gradual reductions in the bank base rate in the second half of the calendar year.

2.2 The table shown below outlines the Council's view of anticipated movements in interest rates, based on guidance received from the Council's treasury management advisers Link Asset Services as at 5 February 2024.

	March 2024	June 2024	Sept 2024	Dec 2024	March 2025	March 2026	March 2027
Bank Rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.00%	3.00%
5 yr PWLB	4.50%	4.40%	4.30%	4.20%	4.10%	3.60%	3.50%
10 yr PWLB	4.70%	4.50%	4.40%	4.30%	4.20%	3.80%	3.70%
25 yr PWLB	5.20%	5.10%	4.90%	4.80%	4.60%	4.20%	4.10%
50 yr PWLB	5.00%	4.90%	4.70%	4.60%	4.40%	4.00%	3.90%

Long Term Interest Rates

2.3 Investment returns are likely to decrease during 2024/25 with further decreases forecast in the following two years.

3 Treasury Limits for 2024/25 to 2028/29 including Prudential Indicator

3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Council for the foreseeable future. This is reported within the Council's Medium-Term Financial Strategy.

3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.

3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit if they are affordable, prudent and proportionate. The Code requires that treasury management decisions be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Council will take into account its arrangements for the repayment of debt and consideration of any impact, on the authority's overall fiscal sustainability.

3.4 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and housing rent levels is affordable.

3.5 To facilitate the decision-making process and support capital investment decisions the Prudential Code and the Treasury Management Code require the Council to agree and monitor a minimum number of prudential indicators which were approved by Council on 20 February 2024 as attached at Appendix 4.

3.6 The Strategic Director, Resources and Digital, will ensure systems are in place to monitor the treasury limits and will report to Council instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4 Borrowing Strategy

4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.

4.2 The main options available for the borrowing strategy for 2024/25 are PWLB loans, market loans, capital market loans and the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.

4.3 There are different types of market loans available, including forward starting and fixed or variable rates loans. It is not usual practice for the Council to agree forward starting or variable rate loans, but their use may be considered in specific circumstance, and where the rates of interest offered are below a fixed rate loan or future PWLB forecast rates to make them an attractive option.

4.4 To mitigate this interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans; it is proposed that the limit on variable rate loans is 10% of total borrowing in 2024/25.

4.5 The main strategy is therefore:

- Current (February 2023) long term PWLB rates (50 years) are around 5.16%. It is forecast that there will be a gradual reduction in PWLB rates over the next financial year, being 5.00% Q1, 4.90% Q2, 4.70% Q3 and 4.60% Q4.

- Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

- The average interest rates forecast across this financial year for various borrowing periods are as follows: -

10 years –	4.47%
25 years –	5.00%
50 years –	4.80%

- Whilst monitoring borrowing interest rates if there appears to be an upward trend then it may be considered prudent to lock into rates which exceed those outlined in paragraph 4.6 above, to minimise interest rate risk.

- The use of short-term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.

- External borrowing rates currently exceed the return available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.

- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

- Any increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority.

Sensitivity of the forecast

4.6 The Council, in conjunction with Link Asset Services, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

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

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

4.7 Against this background, caution will be adopted in the management of the 2024/25 treasury operations. The Strategic Director, Resources and Digital, will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Council.

External and Internal Borrowing

4.8 As of 31 January 2024 the Council had net debt of £560.255m; this comprises of total borrowing of £684.966m and investments of £124.711m.

4.9 Investment returns are expected to slightly decrease in the first half of 2024/25. However, while markets are pricing in anticipated Bank base rate reductions in the short-term, actual economic circumstances may fall short of these expectations.

4.10 Borrowing interest rates fell to historically low levels as a result of the covid pandemic but since then have continued to increase as the Bank of England increased bank base rates in response to high interest rates and the cost of living crisis. Since the last increase in August 2023 base rates have stabilised at 5.25% and this is anticipated to continue in the short-term. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over recent years. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty.

4.11 There remains a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will most likely incur a revenue cost.

Borrowing in advance of need

4.12 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that it is in line with the projected capital financing requirement and prudential indicators and that the Council can demonstrate value for money and ensure the security of the funds.

4.13 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow; and
- consider the alternative forms of funding.

5. Debt Rescheduling

5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Council's Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.

5.2 The reasons for any proposed rescheduling will include:

- the generation of cash savings at minimum risk;
- help to fulfil the treasury strategy; and
- in order to amend the maturity profile and/or the balance of volatility in the Council's borrowing portfolio.

5.3 The Strategic Director, Resources and Digital, in line with delegated powers outlined in the approved Treasury Management Practice Statement, will approve all rescheduling.

5.4 The Council will monitor interest rates and any opportunities to repay debt early which may arise to reduce the difference between its gross and net debt positions and to realise any benefits from the differential between interest rates. Any significant difference between early redemption rates and interest rates payable on new debt will be considered to ensure that any short term savings is not replaced by a higher longer term financial cost.

5.5 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short-term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

5.6 All rescheduling will be reported to Council in the quarterly and annual reports.

6. Investment Strategy 2024/25 to 2028/29

Introduction

6.1 The Council has regard to the Department for Levelling up, Housing and Communities (DLUHC) Guidance on Local Government Investments and CIPFA's Code of Practice. The Council must produce a strategy on an annual basis which covers the subsequent five years.

6.2 The CIPFA definition of "investments" covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

6.3 This annual strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the categories of **specified investments** and **non-specified investments.**

- Specified investments are those with a high-level credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

6.4 Both specified and non-specified investment types currently utilised by the Council are detailed in Appendix 5, along with approved limits. These limits reflect the Council's investment requirements whilst assessing risk and obtaining advice from Link Asset Services.

6.5 In addition to these, numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the option will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

6.6 All investments will be in Sterling and all investment decisions are taken on data available on the day of investment.

6.7 The Council's primary investment objective is the security of the capital investment. The Council will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

6.8 The borrowing of monies purely to invest is unlawful and the Council will not engage in such activity.

Creditworthiness Policy

6.9 The Council applies the creditworthiness service provided by Link Asset Services. The service uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody's and Standard and Poor's. This service uses a scoring system to ensure that it does not give undue consideration to just one agency's ratings. It does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.10 The end product of this modelling system indicates the relative creditworthiness of counterparties. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

The minimum credit rating criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a long-term rating of A. In circumstances where ratings from all three agencies are not available, two acceptable ratings will be deemed as sufficient.

Where three ratings are published and all three do not meet our minimum criteria the counterparty will not be used until such a time as all three ratings meet the minimum criteria or the lowest rating is withdrawn.

6.11 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. The Council has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Asset Services creditworthiness service. Ongoing monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- If a counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the Strategic Director, Resources and Digital.

6.12 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and information on government support for banks and the credit ratings of government support.

6.13 The Council has determined the minimum long term and short-term ratings it deems to be "high" for each category of investment. These "high" ratings allow investments of 365 days or less to be classified as **specified investments**. The Council's approved limits for this "high" credit rating for deposit takers is as follows:

High Rated	Fitch	Moody's	Standard & Poor's
Short Term (ability to repay short term debt)	F1	P1	A1
Long Term (ability to repay long term debt)	A	A2	A

6.14 In addition to the above specified investments, the Council has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non- High Rated	Fitch	Moody's	Standard &Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

The selection of counterparties with an acceptable level of creditworthiness will be achieved by selecting institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 5.

6.15 As part of the annual review of counterparty limits no changes to the existing market conditions and level of council reserves held have been identified. The level of investment per counterparty, the existing % limit per counterparty and credit rating requirements have been retained to ensure risk is minimised and security of the councils investments is maintained. UK Government nationalised/part nationalised banks will have a maximum limit of 40% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £20m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.

6.16 Where more than one counterparty from a group is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.

6.17 A number of counterparties are also approved by the Strategic Director, Resources and Digital for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the Strategic Director, Resources and Digital prior to investments being placed.

UK Banks - Ring Fencing

6.18 The largest UK banks were required by UK law to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as “ring-fencing”.

6.19 Ring-fencing is a regulatory initiative created in response to the global financial crisis which improves the resilience of banks by changing their structure. In general, simpler, lower risk activities will be offered by a ring-fenced Bank (RFB), whilst more complex and riskier activities will sit within a non-ring-fenced bank (NRFB).

Foreign Banks

6.20 The Council will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list, they must also meet the high rated lending criteria and have operations based in the UK.

6.21 A review of investment balance limits on individual countries is undertaken annually. The existing % limit per counterparty and credit rating requirements have been retained to ensure risk is minimised and security of the councils investments is maintained. Limits will be prescribed by the Link Asset Services creditworthiness list and limited to 365 days or less.

Each country will be limited to the maximum investment limit of £20m or 20% of the Council’s total investments and individual counterparties will not exceed a maximum limit equal to 20% of total investments or £15m. A list of those countries with a minimum sovereign rating of AA+ is shown in Appendix 6.

Local Authorities

6.22 The Council invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis and agreed by the Strategic Director, Resources and Digital, prior to funds being placed. Limits are detailed at Appendix 5.

Environmental, Social & Governance (ESG) Considerations

6.23 The Council overarching Thrive strategy to work towards a better future for Gateshead residents and has individual policies to cover areas such as Public Health and Wellbeing and Climate Strategy.

The council currently consider credit ratings when investing, the agencies providing the ratings incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings and as such ESG considerations are already incorporated to an extent.

The Council will continue to work with and follow the advice of its financial advisors when looking at ways in which to incorporate further ESG factors into their own assessment service.

Investment balances / Liquidity of investments

6.24 Creditworthiness of counterparties is considered prior to depositing funds. The maximum term for investments is 3 years. Longer term deposits will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments whichever is the higher) has been set and a prudential indicator has been calculated (See Appendix 3). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.25 Deposits for periods longer than 365 days are classed as **non-specified investments** and this will increase the total limit of overall deposits in this classification to 25%.

Long-term Treasury Investments

6.26 Any long-term Treasury Investments (including pooled funds) are to be classed as commercial investments unless justified by a cash flow business case.

Non-Treasury Investments

6.27 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

6.28 A loan or grant by the Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan was capital expenditure or if it is an investment made primarily to generate a financial yield. The latter will be assessed using the Council's Investment Framework.

6.29 The Council will ensure that all the organisation's investments are covered in either the Capital Strategy or Investment Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Commercial Investments

6.30 To date the Council have not entered into any non-treasury investments which are purely to generate a commercial return, neither are there any plans to consider entering into non-treasury investments solely or primarily to obtain a revenue return. However, if an opportunity to do so arose the long-term financial impact and the risks inherent to the scheme would be assessed as part of the due diligence process. Where the size of the investment or the risk of the investment required external advice, this will be obtained. Any potential investment entered for a commercial return will require prior Cabinet approval.

6.31 The Council does not invest for solely commercial reasons or to generate income to support the revenue budget. Any capital investment entered into to deliver service objectives and/or the placemaking role of the local authority is monitored and reported in line with the Capital Strategy. Capital investments are assessed in terms of their contribution to deliver the following objectives:

- Health and Housing
- Economy
- Poverty and Equality
- Climate Change
- Transport

Further information can be obtained from the Council's Capital Strategy at the following link Capital Strategy 2024/25 to 2028/29

6.32 The Council maintains a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure, which is attached at Appendix 7.

Internal Investment Strategy

6.33 The Strategic Director, Resources and Digital will monitor the interest rate market and react appropriately to any changing circumstances.

6.34 The Council takes the view that bank base rate is forecast to gradually decrease over the next few years. Bank rate forecasts for financial year ends are 2023/24 5.25%, 2024/25 3.75%, 2025/26 3.00% and 2026/2726 3.00%.

6.35 The overall balance of risks to economic growth in the UK are weighted to the downside. This is based on the Bank of England's forecast that the UK's economic growth would remain slow to subdued rates. Although reduced from the higher rates seen in the previous 12 months inflationary pressure on the economy will continue, with inflation rates in excess of bank targets and expected to remain above target for a prolonged period.

6.36 The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also weighted to the downside.

Investment Risk Benchmark

6.37 The Council uses the Sterling Overnight Investment Rate (SONIA) 3-month rate as a benchmark to assess the investment performance of its investment portfolio. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

The Council is also a member of the Link Asset Services investment benchmarking Group who meet semi-annually. As a member the council receives quarterly reports on comparative performance with other members of the group and the wider Link Asset Services client base. The benchmarking return for the group is a reasonable target for the Council, which allows the relative risk appetite to be considered as part of the benchmark.

End of year investment report

6.38 By the end of September each year Council will receive a report from Cabinet on its investment activity as part of its annual treasury report.

Policy on use of external service providers

6.39 The Council currently uses Link Asset Services as its external treasury management advisers.

6.40 It is recognised that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

6.41 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Training

6.42 The CIPFA Treasury Management Code requires the Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.

6.43 The council will carry out the following to monitor and review knowledge and skills:

- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

6.44 The training needs of treasury management officers are periodically reviewed.

Scheme of Delegation

6.45 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed in Appendix 2, paragraph 1.3.

Role of the Section 151 Officer

6.46 As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit; and
- Arranging for the appointment of external service providers;
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities;
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority; and
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

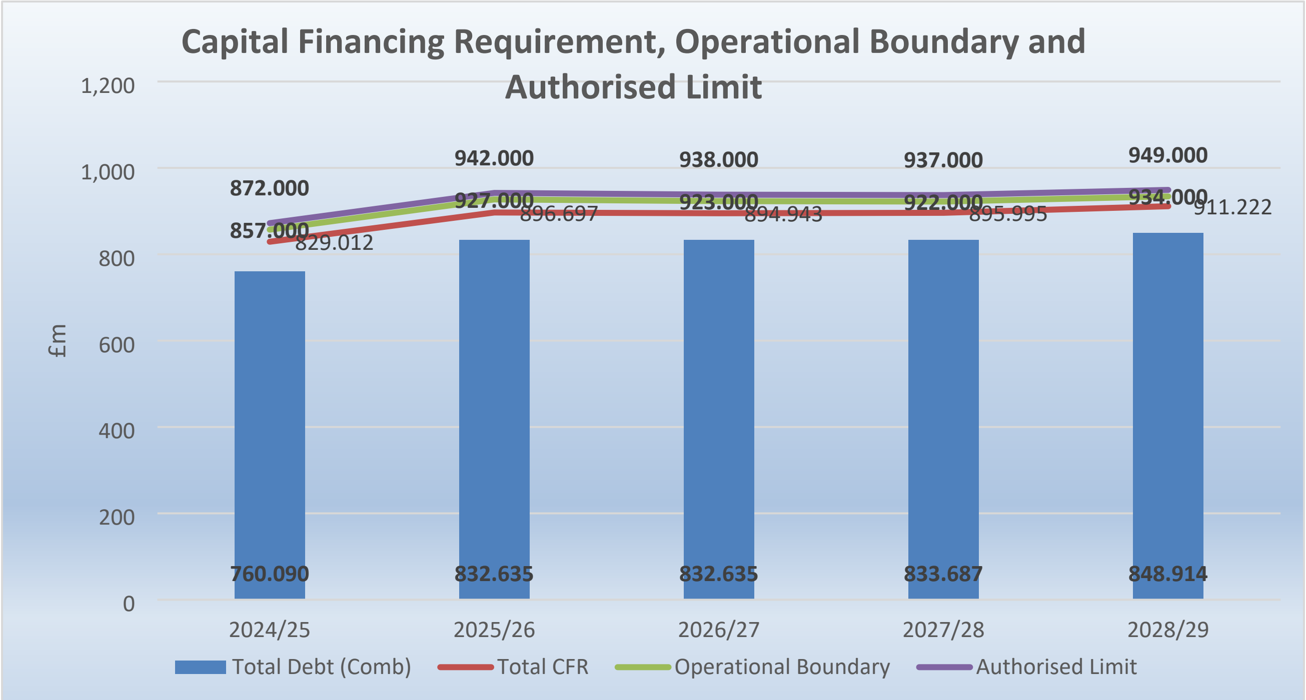
Prudential Indicators –Treasury Management

Authorised Limit for External Debt					
	2024/25 £000	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**
Borrowing	872,000	942,000	938,000	937,000	949,000

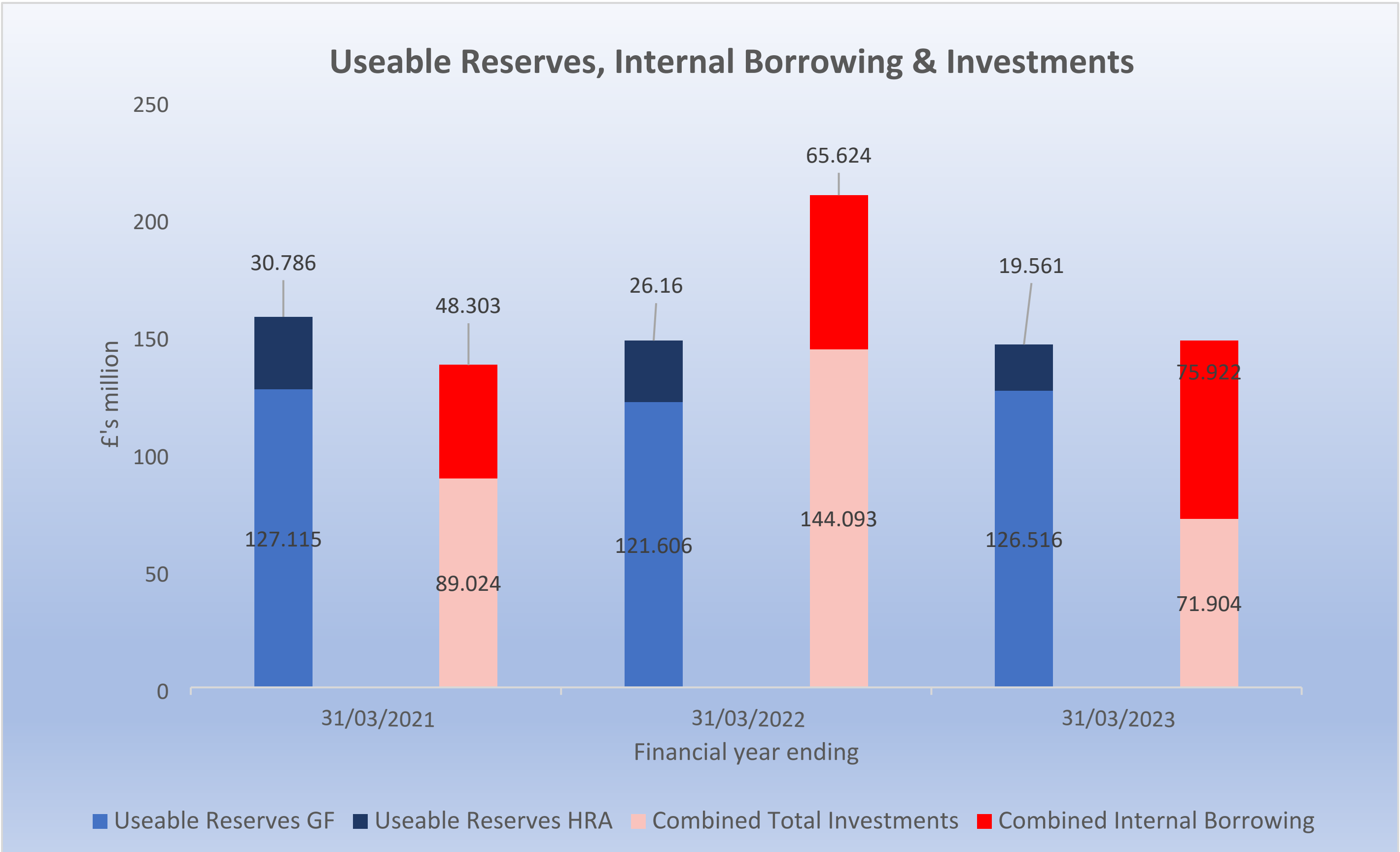
The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need.

Operational Boundary for External Debt					
	2024/25 £000	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**
Borrowing	857,000	927,000	923,000	922,000	934,000

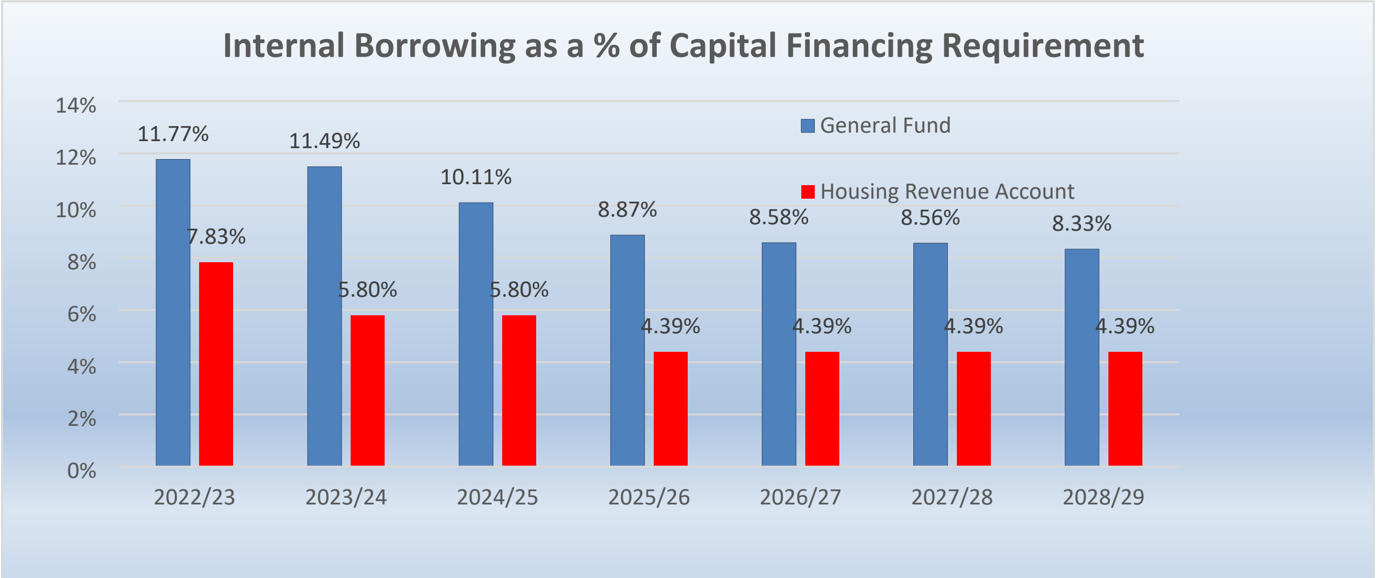
The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similar, to the authorised limit it also provides scope for the Council to borrow in advance of need.



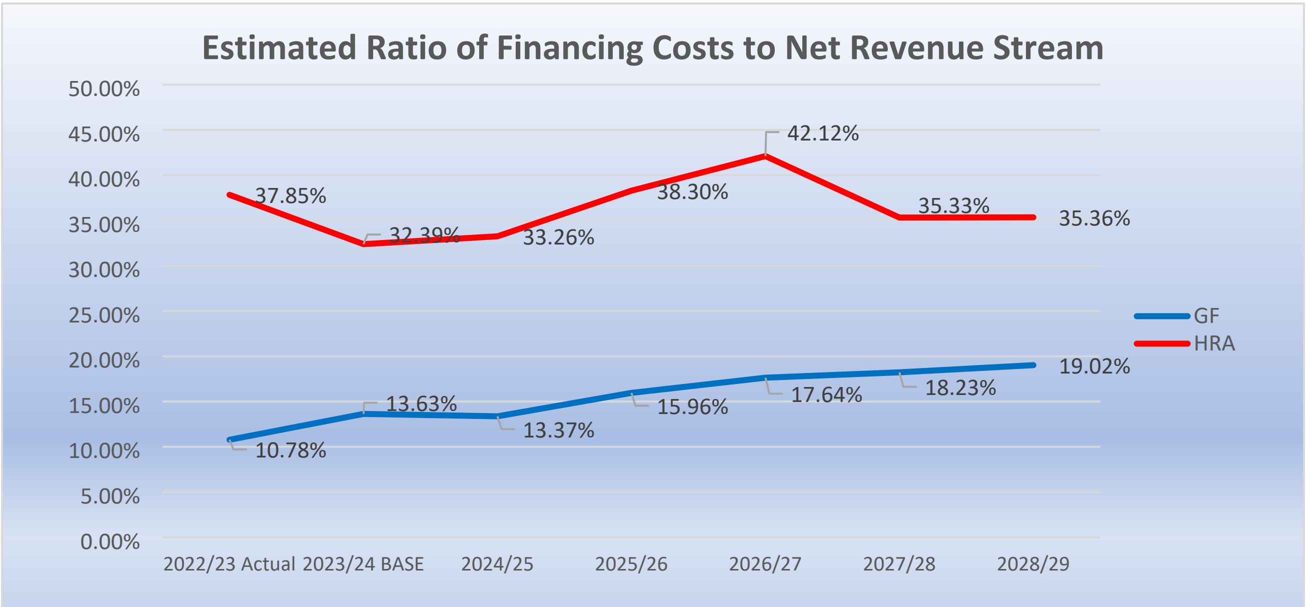
Capital Financing Requirement (CFR) shows the Council's capital borrowing requirement. Any gap between the CFR and the total debt highlights the potential to borrow further if the cashflow and treasury management position dictate.



The internal borrowing position represents the level to which reserves and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank.



Internal borrowing as a percentage of the Council's underlying borrowing requirement reflects the Council's exposure to interest rate movements and the element of borrowing that is being undertaken at variable rates (i.e. rates equivalent to the lost interest on investment income).

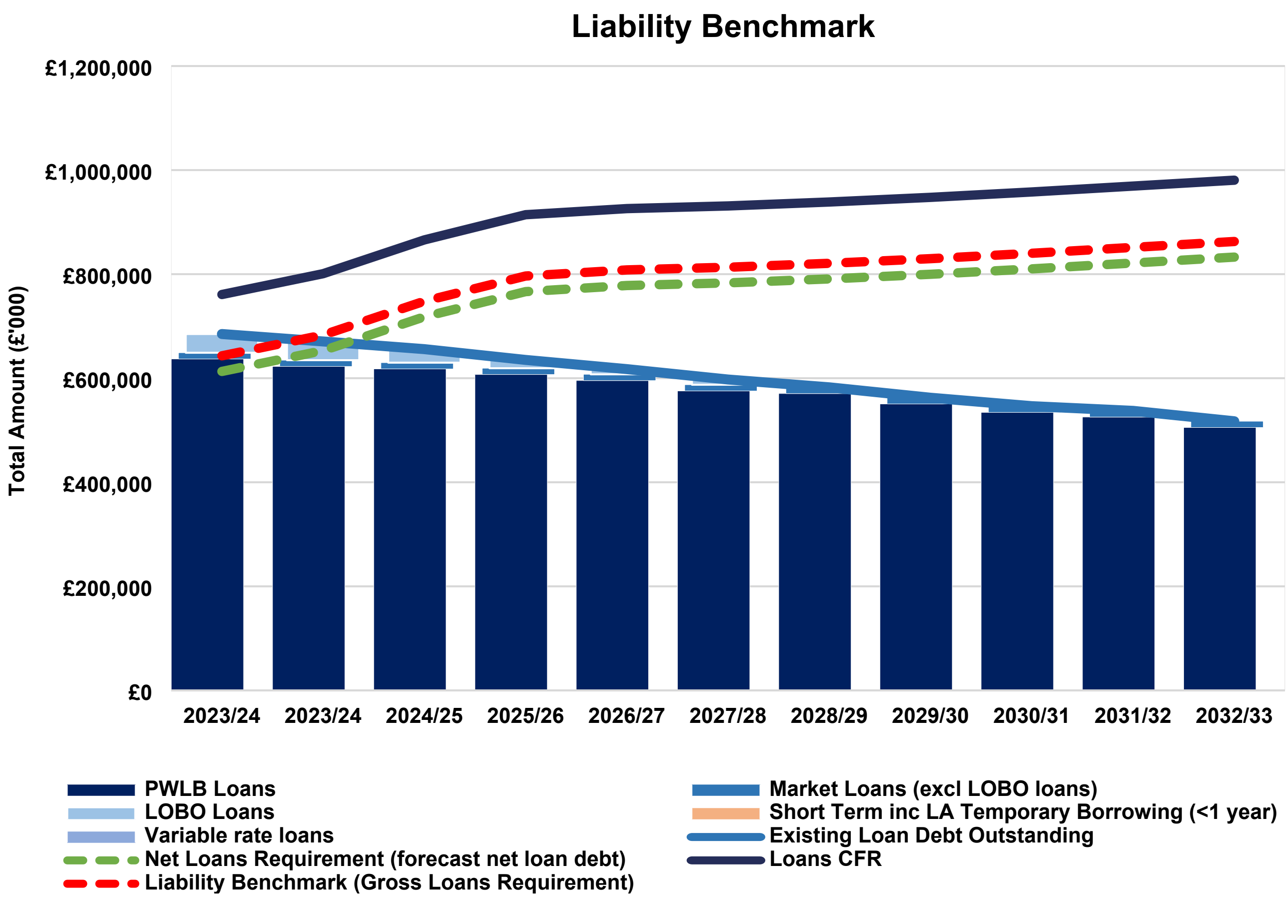


Ratio of financing costs to net revenue stream – financing costs must be met before any services have been delivered. Higher financing costs leaves less available to provide services.

Net Income from Commercial and Service Investment Income to Net Revenue Stream

	2023/24 Estimate £'000	2024/25 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2028/29 Estimate £'000
Income from financial investments	5,854	5,980	5,935	5,935	5,935	5,935
Income from assets held primarily for financial return	0	0	0	0	0	0
Investment management costs	0	0	0	0	0	0
Other direct revenue costs of investments	0	0	0	0	0	0
TOTAL NET COMMERCIAL & SERVICE INCOME	**5,854**	**5,980**	**5,935**	**5,935**	**5,935**	**5,935**
Taxation, Precepts	110,476	117,473	117,473	117,473	117,473	117,473
Non-specific grant income	73,872	91,005	91,005	91,005	91,005	91,005
NET REVENUE STREAM	**184,348**	**208,478**	**208,478**	**208,478**	**208,478**	**208,478**
Ratio of net income from commercial & service investments	**3.18%**	**2.87%**	**2.85%**	**2.85%**	**2.85%**	**2.85%**

This Indicator shows the financial exposure of the Authority to the loss of its non-treasury investment income.



The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. It is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

Treasury Indicators

Upper and Lower Limits for the Maturity Structure of Fixed Rate Borrowings		
	Upper Limit	Lower Limit
Under 12 months	16%	0%
12 months and within 24 months	16%	0%
24 months and within 5 years	22%	0%
5 years and within 10 years	23%	0%
10 years and within 20 years	17%	0%
20 years and within 30 years	21%	0%
30 years and within 40 years	46%	0%
40 years and within 50 years	39%	0%
50 years and above	13%	0%

Upper and Lower Limits for the Maturity Structure of Variable Rate Borrowings		
	Upper Limit	Lower Limit
Under 12 months	18%	0%
12 months and within 24 months	13%	0%
24 months and within 5 years	13%	0%
5 years and within 10 years	13%	0%
10 years and within 20 years	13%	0%
20 years and within 30 years	13%	0%
30 years and within 40 years	13%	0%
40 years and within 50 years	13%	0%
50 years and above	13%	0%

Upper Limit on Amounts Invested Beyond 365 Days					
	2022/23 £000	2023/243 £000	2024/25 £000	2025/26 £000	2029/27 £000
Investments	15,000	15,000	15,000	15,000	15,000

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expenditure	Circumstance of use	Maximum period
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. *See appendix 2 Creditworthiness Policy*	No	In-house	365 days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating *See appendix 2 Creditworthiness Policy*	No	In-house	365 days

Short Term Money Market Funds The majority of these funds are instant access and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 2 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).
Standard Money Market Funds and Ultra Short Duration Funds 3-day notice cash plus fund These funds require three-day notice for withdrawals and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 2 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. Notice required is three days, however it is the intention to leave these funds for terms longer than other money market funds to achieve greater returns.

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Rated deposit takers (banks and building societies) which do not meet the Council's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Long term A-* *Short term F1*	No	In-house	Total not high rated deposits as a proportion of total investments 25%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	Total investment per Counterparty 20%	3 years

Certificate of Deposits issued by banks and building Societies	A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits. B) Credit risk could change but if adverse there is an option to sell onto a secondary market. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Fitch Long term A- Short term F1*	No	In-House	20%	12 months (but set on an individual counterparty basis)

Appendix 5

Maximum Maturity Periods and Amounts

Organisation	**Criteria**	**Max Amount***	**Max Period**
High Rated (Specified Investments – High rated and up to 365 days see Appendix 4)	Minimum Fitch rating of F1 short term and A long term. Moody's minimum rating of P1 short term backed by A2 long term and S&P minimum rating of A1 short term and A long term.	£20m	3 years
Foreign Banks	Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m country limit (£15m individual counter party limit)	365 Days
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Moody's minimum rating of P1 short term backed by A3 long term and S&P minimum rating of A1 short term and A- long term.	£15m	6 months
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years
Short-Term Money Market Funds (Same day settlement)	AAA MMF fund rating or equivalent with assets >£1bn	£10m	Overnight
Standard Money Market Funds and Ultra-Short Duration Funds (Trade plus 3-day settlement)	AAA fund rating or equivalent, backed up with lowest volatility rating (S1) or equivalent with assets > £0.75bn	£10m (excludes any compound interest)	3 days

* Restricted to a maximum of either 40% if government backed or 20% of total investments if non-government backed counterparty.

Appendix 6

Foreign Banks

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 14/02/2024.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Canada
- U.S.A.

Non-Treasury Management Investments

Investment	Latest Balance 31 January 2024	Notes
Long term loans to Keelman Homes	£15,661,864	Loan Balance at 31/01/2024
SCAPE System Build Ltd	£784,000	17% Shareholding in SCAPE
Newcastle International Airport	£11,661,242	13.33% shareholding in Newcastle Airport
Loan to Citizens Advice Bureau	£425,807	Loan Balance at 31/01/2024
Newcastle International Airport Long Term credit notes	£13,152,711	Loan notes - interest paid bi-annual Principal repayment due 2032
Soft Loans	£76,070	North Music Trust - Soft Loan Balance at 31/01/24
Loan to NE Credit Union	£107,303	Loan Balance at 31/01/2024
Loans to Gateshead Energy Company	£5,500,000	Loan Balance at 31/01/2024
Loan to NGI	£100,000	Loan Balance at 31/01/2024

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Gateshead Council

Audit and Standards Committee
07 March 2024

Title of Report: **Local audit delays: proposals to clear the backlog and embed timely audit**

Report of: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1 This report updates the Audit and Standards Committee on the Government's consultation around proposals to address the local audit backlog and embed timely audits.

Background

2 On 8 February 2024, Department for Levelling Up, Housing and Communities (DLUHC), issued a consultation and joint statement on proposals to clear the audit backlog for English councils. The joint statement included recommendations from DLUHC, the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Public Sector Audit Appointments (PSAA).

3. The Committee will be aware that Gateshead Council is in a more favourable position compared to many other authorities as all financial accounts up to and including 2022/23 have been completed by external audit and we will receive the audit certificate once we have received a joint value for money statement for 2021/22 and 2022/23. We anticipate to receive a positive value for money opinion from Mazars the external auditor shortly and as such we would not be affected by any of the proposals as part of phase 1.

4 The joint statement set out three phases of measures to address the audit backlog:

- **Phase 1: Reset** – this involves clearing the backlog of historical audit opinions up to and including the financial year 2022/23 by 30 September 2024. This phase is not applicable to Gateshead Council as all audits up to and including 2022/23 have now been completed.

- **Phase 2: Recovery** – introducing audit backstop dates to prevent the recurrence of the backlog and allowing audit assurance to be built up over multiple audit cycles.

5 **Phase 3: Reform** – addressing the systematic challenges in the local audit systems to embed timely financial reporting and audit.The consultation is to seek views on phases 1 and 2 of the project plan and the Council's response to this consultation is shown in Appendix 1.

Phase 1: Reset

6 The Government would use changes to legislation and the Code of Audit practice to implement a backstop date of 30 September 2024 for all outstanding audits up to and including the financial year 2022/23.

7 Auditors will be required to publish an opinion based on completed work as at the backstop date and this opinion can be either unmodified, modified (qualified or adverse) or disclaimed.

8 Auditors will be able to produce a single commentary on Value for Money arrangements covering all outstanding periods up to 2022/23.

9 The Government is proposing to publish a list of local bodies and their auditors which do not meet the backstop date.

Phase 2: Recovery

10 With the introduction of modified or disclaimed audit opinions auditors will require time to obtain assurances over the opening balances in the financial statements and the aim of the recovery phase is to give auditors multiple financial years in which to achieve assurances.

11 New statutory backstop dates for all financial years up to and including 2027/28 will be introduced. These backstop dates will replace the existing statutory deadline of 30 September for the publication of audited accounts.

12 Councils would not be required to publish a delay notice during these periods.

13 The introduction of these new backstop dates may result in more modified or disclaimer audit opinions.

14 The proposed new backstop dates have been designed to limit the impact on other public sector audits and are as follows:

Year end 31 March 2024: 31 May 2025
Year ended 31 March 2025: 31 March 2026
Year ended 31 March 2026: 31 January 2027
Year ended 31 March 2027: 30 November 2027
Year ended 31 March 2028: 30 November 2028

15 The Government is proposing to publish a list of local bodies and audit firms which meet and do not meet the deadlines.

16 It is proposed that the Code of Audit Practice will require the Auditors' Annual Report to be issued in draft by 30 November each year irrespective of the position of the audit and this will be published on the Council's website.

Contact name: Darren Collins Ext - 3582

Appendix 1

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)

Do you have any comments on this issue?

Agree

Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)

Do you have any comments on this issue?

Agree

Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Please explain your response.

Disagree. If the purpose is to close off all accounts which means that the accounts will receive a modified or disclaimed opinion, then all accounts should be closed regardless otherwise some authorities will still be in a position of unaudited accounts which could cause delays within those audit firms for other authorities.

Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree. If the purpose is to close off all accounts which means that the accounts will receive a modified or a disclaimed opinion, then all accounts should be closed regardless otherwise some authorities will still be in a position of unaudited accounts which could cause delays within those audit firms for other authorities.

Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Disagree –We do not believe that anything would be gained by doing this. The system desperately needs to be reset.

Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?

- **2023/24: 31 May 2025**
- **2024/25: 31 March 2026**
- **2025/26: 31 January 2027**
- **2026/27: 30 November 2027**
- **2027/28: 30 November 2028**

Do you have any comments on these dates?

Disagree with the first two backstop dates. Any backstop date after February becomes problematic for local authority staff as balances cannot be rolled forward and opens the accounts to post balance sheet events.
We believe the backstop date for the first three years should be 31 January.

Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)
Please explain your response.

Disagree – if introducing a backstop date then all accounts should close with the appropriate opinion given. Not closing all accounts impacts on the audit firms and capacity which can then potentially impact on other authorities unintentionally.

Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure)
Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Disagree – if introducing a backstop date then all accounts should close with the appropriate opinion attached. Not closing all accounts impacts on the audit firms and capacity which can then potentially impact on other authorities unintentionally.

Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Strongly Disagree – audit firms are already concerned about fines and the great levels of scrutiny from regulators in relation to the audit of the accounts. Introducing consequences could lead to a potentially divisive environment between auditors and authorities. It may be difficult to establish fault between the auditor and the authority and Councils do not have the funding available to cover any monetary consequences.

Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)

Please explain your response.

We believe that the deadlines for the unaudited accounts should be as follows:

2024/25 31 July 2025
2025/26 30 June 2026
2026/27 31 May 2027
2027/28 31 May 2028

Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)

Please explain your response.

Any backstop date after January/February is problematic for local authorities as accounts are created with unrolled forward balances and accounts potentially still open to audit. With a date of the 31 May local authorities could be still answering audit queries whilst completing the current years accounts. We believe the deadline for 2024/25 should be 31st July if the 31st May for audited 2023/24 accounts remains.

Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the Joint Statement, do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

It is technically feasible that audited accounts are published by the proposed back stop dates, but we believe it is unlikely that the opinions would be unmodified.

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)

Do you have any comments on this issue?

Disagree – it is unhelpful to publish draft positions that can changing during the remainder of the audit and could potentially be misleading to stakeholders of the accounts and residents.

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

No

Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?

(Where possible, please limit your response to 500 words)

It is appreciated that audit firms require time to gain assurances over opening balances however providing a deadline of 31 May 2026 in the first instance may actually result in more Councils that are unable complete their audits. Any deadline after February is problematic for local authorities. The backstop dates do not incentivize audit firms to get accounts completed early and also open the accounts up to post balance sheet events.

Local government audits appear to be considered secondary to other public sector audits and this means there is always going to be an issue in terms of meeting audit deadlines.